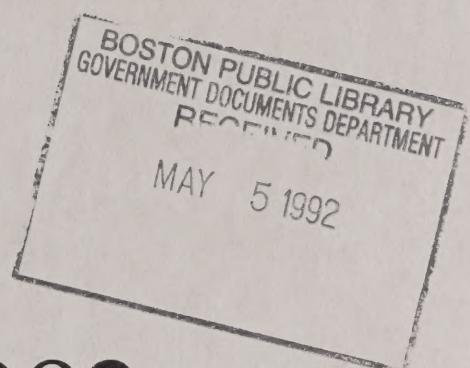


BOSTON PUBLIC LIBRARY

3 9999 10104 601 7

OFFICE OF BUDGET AND PROGRAM EVALUATION

# City of Boston



# Fiscal Year 1992 Operating Budget

---

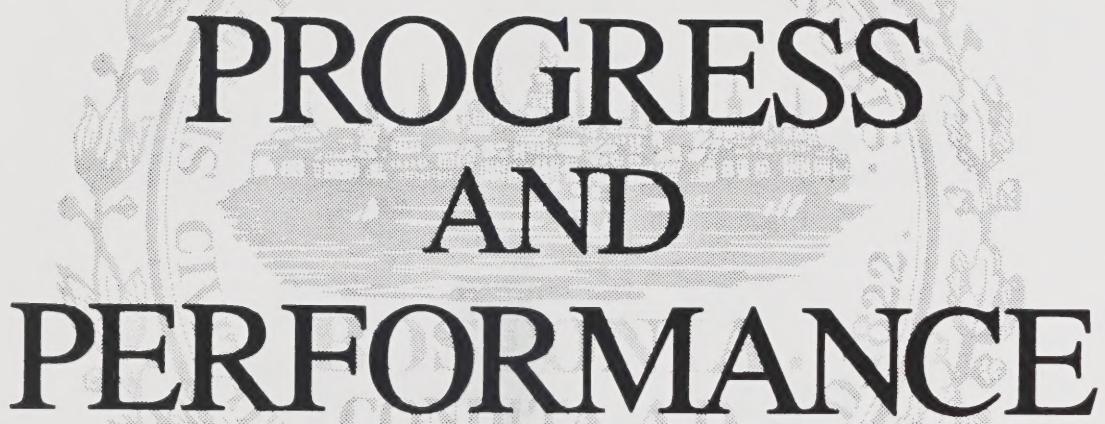
VOLUME I  
Overview of the Budget

---

GOVDOC  
HJ9013  
B7E  
1992  
V.1

RAYMOND L. FLYNN, MAYOR  
ROBERT J. CIOLEK, ACTING DIRECTOR, ASD  
BARBARA S. GOTTSCHALK, DIRECTOR, OBPE





# PROGRESS AND PERFORMANCE



Digitized by the Internet Archive  
in 2023 with funding from  
Boston Public Library

<https://archive.org/details/programbudgetcit1992bost>

# **PROGRESS AND PERFORMANCE**

**Fiscal Year 1992  
Operating Budget**

---

**VOLUME I  
Overview of the Budget**

---



# **RAYMOND L. FLYNN, MAYOR**

**ROBERT J. CIOLEK, ACTING DIRECTOR**  
Administrative Services Department

**BARBARA S. GOTTSCHALK, DIRECTOR**  
Office of Budget and Program Evaluation

**DORIS M. GAGNON**  
Deputy Director, Budget

**NEIL H. GORDON**  
Deputy Director, Program Evaluation/Administration

---

## **BUDGET & PROGRAM ANALYSIS:**

### **BASIC SERVICES**

Naomi Isler, Jerry Carchedi, Darrell Crockett, Patricia DeMarco, Lynda Fraley, Anthony Reppucci

### **SUPPORT SERVICES**

Barry Fadden, Trevor Bishop, Mary Lou Donovan, Walter Flynn, John Scully

### **INFORMATION SYSTEMS**

Gerard Rufo, John Cronin

### **EXECUTIVE ASSISTANT**

Marianne Regan

### **ADMINISTRATION AND SUPPORT**

Denise Jordan, Susan Curry-Magoon, Geraldine DeFlumeri, Deborah DeLeo, Annmarie Frammartino, Jacquelyn Murphy

### **COMMUNITY SERVICES**

John Chan, David Aronson, Diane MacDonald, Declan O'Brien

### **SCHOOLS**

Marianne Regan

### **REVENUE ANALYSIS**

James Kennedy, Trevor Bishop, Miriam Goldberg

### **BOSTON WORKS SMARTER**

Darrell Crockett

### **INTERNS**

Anna Maria Iantosca, Mary Murphy

---

with assistance from: Paul D. Parisi (Datalex Corp.), and Jeffrey Jordan (Applied Management Consulting)



## CONTENTS

---

### **VOLUME I** **Overview of the Budget**

Letter of Transmittal: Raymond L. Flynn, Mayor

Executive Summary

Section 1: Financial Trends for the City of Boston

Section 2: Local Aid

Section 3: Comparative Revenue Estimates and Analysis

Section 4: Summary Budget for Fiscal Year 1992

Section 5: Appropriation and Tax Order

School Department Budget  
and Two-Year Comparisons

Section 6: Boston's Program Budgeting and Program Evaluation System

Section 7: Goal Setting for the City of Boston

Section 8: Capital Planning for the City of Boston

Section 9: Financial Management of the City

Section 10: Statutes and Ordinances Governing Boston's Operating Budget

Section 11: Boston — Its Economy, People and Neighborhoods

Section 12: Budget Organization and Glossary

### **VOLUME II** **General Neighborhood Services**

Departments A-O

### **VOLUME III** **General Neighborhood Services**

Departments P-Z

### **VOLUME IV** **Support Services**

### **VOLUME V** **External Funds**



# **Fiscal Year 1992**

# **Operating Budget**

---

**VOLUME I**

**Overview of the Budget**

---



## SPECIAL NOTE

In the program budgets which follow you will find many different performance criteria. These criteria include levels of service promised by departments, divisions, and program managers for FY91. The criteria listed for each program do not, however, generally repeat existing City performance requirements which apply to all City departments. Indeed, an extra effort has been made to ensure that performance criteria are relevant to the particular characteristics of each program in order to give the reader a sound understanding of the particular levels of service to be achieved as a result of the funding allocated to that program.

In addition to the stated performance criteria, adherence to certain City-wide performance mandates is assumed. For example, the requirement of "operating within departmental spending authority" is an absolute. Likewise, all departments are expected to adhere to the City's Minority/Women-owned Business Enterprise policy highlighted in each departmental budget to reflect the City's commitment to this important directive.

Similarly, the City has, through the Goals process, established City-wide management goals which all departments are expected to meet. These City-wide goals relate to controlling sick leave usage, timely processing of vendor payments, minimizing absenteeism due to industrial accidents, and implementing managers' performance appraisal. Departments are expected to meet these goals even if no specific performance objectives are noted in their budgets. Statistics on each department's achievement of these goals are published in biannual program progress reports, in addition to the other performance criteria.

The purpose of program budgeting and program evaluation is to focus attention and responsibility directly upon program performance, and it is the City's intent to concentrate on that objective.

## TECHNICAL NOTE

The City of Boston Fiscal Year 1992 Operating Budget was electronically published using Xerox Ventura Publisher 3.0, a professional page layout and document composition system. Graphics were produced using LOTUS Freelance Plus 3.01.

All production was done within the Office of Budget and Program Evaluation, with technical development and support from Paul Parisi of Datalex Corp., and hardware support from the City of Boston, Management Information Systems Division. Special thanks to Allan Stern and Mike Hernon in MIS.





GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**City of Boston,  
Massachusetts**

For the Fiscal Year Beginning

July 1, 1990

*Gary R. Horstem* *Jeffrey L. Eader*  
President Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Budget Presentation to the City of Boston, Office of Budget and Program Evaluation for its annual budget for the fiscal year beginning July 1, 1990.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.





CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR  
RAYMOND L. FLYNN

April 10, 1991

TO THE CITY COUNCIL

Dear Councillors:

I transmit herewith my proposed Fiscal Year 1992 operating budget for the City of Boston and the County of Suffolk. This budget is noteworthy in the following respects:

- The proposed budget marks the seventh consecutive year in a row of a balanced City budget;
- The proposed budget reflects the first decrease in City spending since the Proposition 2 1/2 impacted budgets of the early 1980's;
- The proposed budget protects essential neighborhood services as much as possible and gives high priority to public safety, education, youth, critical health care, and emergency shelter expenditures; and,
- The proposed budget, while harmful to City services, capitalizes on the opportunity to make appropriate organizational changes and to institute improvements in services.

The decrease in City spending is a direct reflection of misplaced state and federal priorities. It is also, unfortunately, an aspect of the weak Massachusetts economy which is not only harming families and communities but governmental budgets as well. Of particular note, however, is the escalating abandonment by the Commonwealth of Massachusetts of its cities and towns as expressed in the form of an active and adequately funded local aid program. The partnership of the state with its 351 cities and towns is clearly at an end, as the state continues to off-load the effects of



TO THE CITY COUNCIL

April 10, 1991

Page 2

its fiscal mismanagement onto the backs of cities and towns. In sum, the retreat of state government in support of cities and towns, along with the impact of the recession, lowers projected City spending by 2.5% when compared to the current year appropriation.

Since my first budget submission in FY85, Boston has managed its financial affairs in a responsible manner. Indeed, since FY89 my budget proposals have reflected a determination to insure that City spending matched available resources. For most City departments the proposed budget will be the third year in a row of budget cuts. In terms of both dollars and staffing the City is living within its means. From FY85 until FY92 City budget increases have averaged 4.3% per year, less than the rate of inflation over the same period. In constant dollars, the proposed spending plan for FY92 is less than actual spending in FY85. Staffing for all City departments (other than the School Department) is less than it was when I took office. Indeed, a recent Special Report issued by the Boston Municipal Research Bureau noted:

"For the second consecutive year, the City of Boston reduced its total work force, reflecting the City's limited revenue growth, primarily due to cuts in state aid... The total number of city and county positions, excluding schools, on the payroll as of January 1, 1991 was 34 less than when Mayor Flynn began office." BMRB Special Report, March 21, 1991, p.1.

Our commitment to sound finance has also been the reason for five bond rating increases for the City of Boston over the past seven years. These fiscal achievements are matched by the improvements in City services over the same period. Fiscal stability and credibility are the cornerstones to sustained improvements in programs and services.

Times, however, have gotten a lot tougher.

In order to keep my commitment to a balanced City budget, difficult - and in a number of cases painful - cuts must be made. Overall, the proposed FY92 budget reduces current departmental appropriations by \$59 million. In terms of departments providing direct City services the average cut will be 5.0%; for administrative support departments the average reduction will be 21.7%. Only one City service department, the Emergency Shelter Commission, is slated for a budget increase for FY92. All other



TO THE CITY COUNCIL

April 10, 1991

Page 3

City agencies will be cut, most for the third year in a row. Should the Governor and the State Legislature restore the cuts in local aid, however, our first priority will be to work toward restoring the budgets of those departments providing direct City services.

Some specific examples of budget reductions are as follows:

o Departments Providing City Services

Police Department	-1.7%
Fire Department	-3.0%
School Department	-3.9%
Library Department	-9.2%
Public Works Department	-11.4%
Inspectional Services Dept.	-19.8%
Parks Department	-19.9%
Office of Business & Cultural Development	-31.4%

o Departments Providing Administrative Support

Treasury Division	-12.6%
Assessing Department	-15.3%
Purchasing Division/ASD	-19.7%
Law Department	-24.1%
Office of Budget & Program Evaluation/ASD	-24.3%
Printing Department/ASD	-28.6%
Mayor's Policy Office	-31.8%
Retirement Board	-43.9%

Included in this budget is a proposed appropriation for the Boston School Department of \$374 million. With the addition of \$4.5 million in state Equal Education Opportunity Grant money and federal impact funds, the school system will have \$378.5 million in direct operating funds available to it for FY92. When available grant funds are used, total school spending for the next fiscal year will exceed \$432.5 million, or an average of \$7,600 per student. In the City's capital budget, I have allocated an additional \$165 million for school building improvements. While the proposed budget for FY92 represents a slight decrease in funding for the School Department, the decline is just 1/10 of 1 percent compared to FY90 expenditures. If additional local aid funds become available I will recommend an increase in the proposed budget for the School Department based upon a fair, proportioned distribution of those



TO THE CITY COUNCIL

April 10, 1991

Page 4

dollars to the school system and other priority City services. It is imperative, however, that the School Committee commit itself to a fiscally responsible spending plan for FY92, and not continue their past practice of knowingly overspending their appropriation.

This budget is premised, though, on the fact that the Commonwealth will cut local aid to the City of Boston for the third year in a row. The proposed cut for FY92 is particularly harmful in that it disproportionately penalizes the City of Boston. Of the announced local aid cut of \$110 million, Boston's share of the cut was \$28 million or fully one quarter of the cuts proposed for all cities and towns, although Boston represents just 10% of the state's population. As Boston and most other cities and towns are fiscally dependent upon the local aid revenue sharing program, we are left with but one option - the reduction of department budgets and the gradual disassembling of critical services. The state's disinvestment in its Capital City is more puzzling in the sense that it is not in the Commonwealth's financial interest to harm the City that has served as the state's principal tax revenue resource. According to the Boston Redevelopment Authority, 23% of goods and services produced in the Commonwealth are due to economic activity within the City of Boston.

The proposed budget, though, does present the opportunity for organizational improvement and the saving of dollars. Some of the more significant changes are:

- o Consolidating Long Island Hospital with Mattapan Hospital, a move which will improve patient care;
- o Consolidating the Environment Department with the Parks Department, a change which will enhance the City's ability to place additional resources into its environmental programs;
- o Consolidating the City's Cable Communications Office with the City's Management Information Systems Office, a change which will place all communication technology within one agency;
- o A proposal to consolidate the City's two licensing boards, ending an anachronism which need not exist today; and,
- o Terminating funding for the City Listing Board, an obsolete state mandate which, if the Commonwealth finds useful, it can fund.



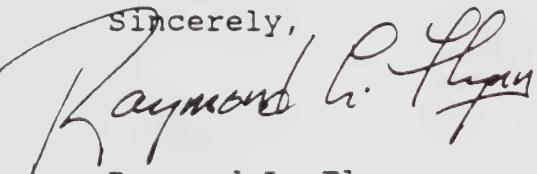
TO THE CITY COUNCIL  
April 10, 1991  
Page 5

Overall, the abolishment and consolidation of various City agencies will save over \$1 million for FY92.

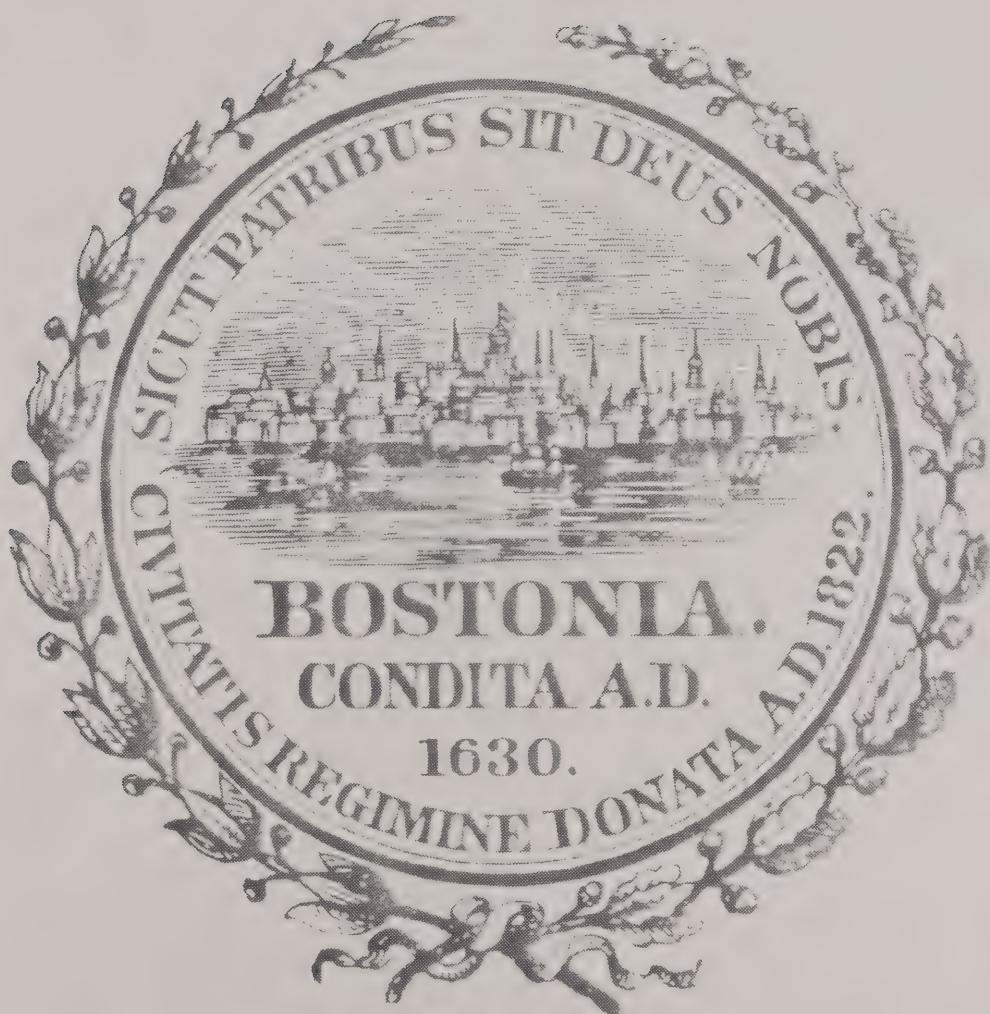
Also, of particular importance in terms of the City environment and with a view toward long term savings, the budget funds the first Citywide recycling effort. Through FY91, the Department of Public Works had successfully managed several pilot recycling efforts. Based upon the lessons learned from these smaller programs, the city will begin a major recycling effort aimed at collecting and recycling of newspaper. While some concerns over the short term viability of the program exist, and while it is hoped that the Commonwealth will do its part in helping to create sustainable markets for recycled newspapers, the City will begin its program in the belief that it is a smart environmental approach for the remainder of this century and the next, and will ultimately save the taxpayers money.

FY92 will be a year of challenge, but it can also be a year of opportunity. While it is patently unfair and terrible public policy to continue to cut local aid, we will not complain about our fate. While we will fight to keep the Commonwealth to its commitment to return our tax dollars back to local government, we are prepared - indeed, we are determined - to maintain a credible and balanced budget. Faith in government is based on a belief that those of us elected to serve the people are accountable and committed to spending tax dollars wisely and well. In this, my eighth budget since first being elected Mayor, I keep that pledge to the people of the City of Boston.

I respectfully submit this budget to the City Council, and look forward to discussing it with you.

Sincerely,  
  
Raymond L. Flynn  
Mayor of Boston







# EXECUTIVE SUMMARY

## INTRODUCTION

The Mayor's Fiscal Year 1992 Proposed Budget represents the seventh consecutive balanced budget for the City of Boston, reversing a history of chronic overspending which included ten consecutive years of deficits. Balancing the budget for FY92 has been the most difficult challenge in the past seven years. Revenue constraints will mean deep reductions in a wide range of important services in the upcoming year.

For the past decade the City's revenue structure has reflected a compact with the Commonwealth — a compact which recognized the need to offset the dramatic municipal revenue reductions imposed by Proposition 2 1/2 with increases in the state's general revenue sharing program, local aid. That compact appears to be seriously damaged, if not entirely broken. The underlying message in this FY92 Proposed Budget is that unless the Commonwealth recognizes the fundamental importance of Boston's local aid, or the City is allowed to restructure its revenue system, the City of Boston will not be able to maintain the basic services that citizens have come to expect.

In light of the impact of local aid cuts, the recession, and unavoidable fixed cost increases, the FY92 Proposed Budget includes \$59.0 million in appropriation reductions from FY91 levels. This \$59.0 million "problem" is composed of three elements: a \$33.7 million decline in revenues, primarily due to cutbacks in local aid and the recession; a \$14.7 million increase in pension, debt service, and state assessment costs; and \$10.6 million in unavoidable increases in appropriated costs, the most significant being employee health care expenses.

Achieving these reductions has required a careful review of Mayoral priorities, reexamination of spending controls, departmental eliminations and consolidations, and appropriation reductions rang-

ing from less than 1 percent to 46 percent. On average, basic service department budgets were cut 5.7 percent and administrative department appropriations were reduced 21.7 percent. The School Department was reduced 3.9 percent.

## MAYORAL PRIORITIES

This budget reflects the priorities which have been a constant with this Administration: public safety, education, health care, and programs for youth. Despite a very difficult financial situation, the FY92 Proposed Budget has been crafted to maintain essential services in these areas, as well as funding a small expansion of the City's recycling effort.

Public Safety. This budget maintains the uniformed strength of the Police Department at 2,083 officers. This staffing level, enhanced by the Department's new community-based policing strategy, will maintain the strongest police presence in the City since before the passage of Proposition 2 1/2. This staffing level permits a corresponding commitment to maintaining the Department's six minute average response time to Priority One calls.

The Fire Department also retains its ability to respond quickly and professionally, using modern vehicles and equipment. The average number of uniformed staff per shift will remain at 292, the actual FY91 staffing level. This staffing will help to maintain the current Department response time of 96.5 percent of all calls responded to in four minutes or less.

Ambulance services provided by the Department of Health and Hospitals are funded to support a small increase in calls. The EMS program is committed to responding to Priority One emergencies within five minutes and to all other calls within seven minutes.



Both the Suffolk County Sheriff's Department and the Penal Department are funded at FY91 levels. This funding, augmented by the third and final year of County Deeds Excise funding, should fully support current operations at the Nashua Street facility, as well as the new House of Detention facility for holding prisoners prior to arraignment.

Level funding of the Penal Department will maintain the current number of County inmates at the Deer Island House of Correction. Because of increased operating costs and the loss of state modular funding, this Proposed Budget will not support operating the new facility at its 823 bed capacity.

The City has experienced a 66 percent increase in corrections costs over the past three years. Statewide, the current system of county funding for some correctional facilities represents an enormous financial burden on all cities and towns. It is only with a single consolidated and coordinated correctional system that the Commonwealth's public safety needs will be met in a fair and cost-effective manner. Legislation currently under consideration would consolidate operations of the Penal Department within the jurisdiction of the Suffolk County Sheriff, and provide for state assumption of all Suffolk County corrections costs. Until this legislation is adopted, Suffolk County's escalating costs, which are borne entirely by the City of Boston, must be contained.

The Governor's FY92 Budget funds a county prison expansion program. The City anticipates that the additional \$4.1 million required to fully operate the new South Cove facility will be available from the Commonwealth in FY92.

Education. The City's single biggest expenditure category is the School Department. The FY92 Proposed Budget continues to reflect the high priority placed on educating Boston's children. While local aid cuts have for the first time since FY82 forced a reduction in the recommended School Department appropriation, this reduction is only two-thirds of the bottom line average cut for other basic service delivery departments. In fact, both the Police and Fire Departments have ex-

## **POLICE, FIRE AND SCHOOL FY90-FY92 BUDGET CUTS**

(\$ IN MILLIONS)

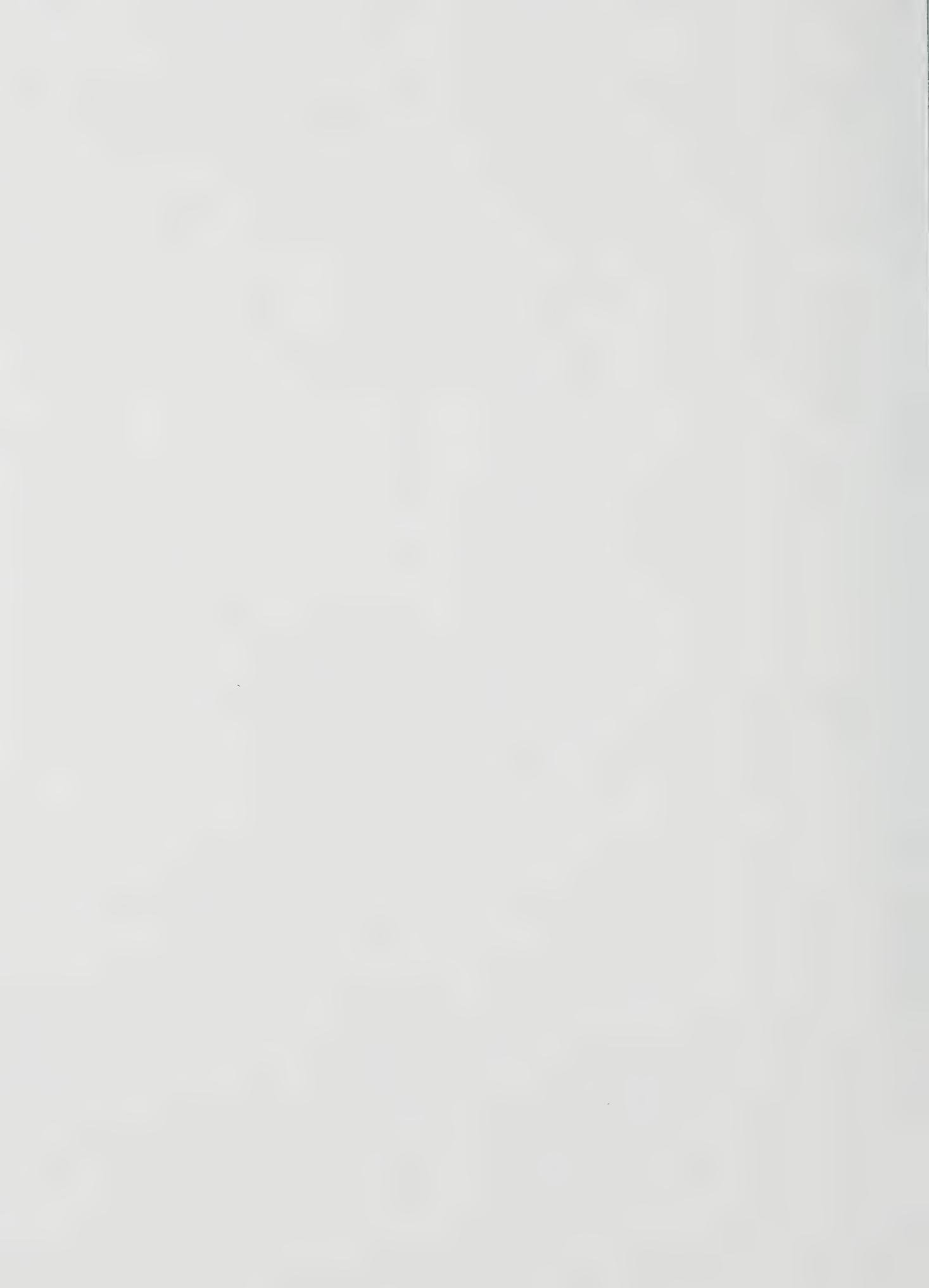
	<u>FY90 EXPEND.</u>	<u>FY92 PROP. BUDGET</u>	<u>% CHANGE</u>
POLICE	\$126.1	\$125.5	-1.0%
FIRE	\$ 85.8	\$ 84.1	-2.0%
SCHOOLS	\$374.4	\$374.0	-0.1%

perienced greater percentage reductions (expenditure to appropriation) than the School Department over the past two years.

Health Care. The Department of Health and Hospitals will also face a budget reduction. However, the impact of this reduction has been largely absorbed by the closing of the chronic care facility on Long Island, an action which will improve patient care. The recommended DH&H appropriation is adequate to maintain or increase essential and irreplaceable community health services. This means that community health centers grants will remain at \$ 5.2 million. Funding is available to support an anticipated increase in homeless bed days from 160,000 to 180,000 in FY92. The FY92 appropriation will also support a near doubling of the number of families served by the Healthy Child Program in the upcoming year.

Youth Programs. Providing support, recreation, and work opportunities to Boston's youth is a critical element of the Mayor's Safe Neighborhoods Plan. Two key appropriations in this effort are the Youth Fund, and the recommended appropriation to Boston Community Schools.

This Budget maintains the Youth Fund grant program which in FY91 provided funding and technical support to 82 community agencies. It consolidates this grant support with City funding for summer jobs for youth in the Youth Fund appropriation. The recommended \$2.5 million appropriation will provide a minimum of 1,700 summer jobs for Boston youth. In addition to providing these young people with a valuable work experience, this funding also supports a major



clean-up effort in parks, vacant lots, and other public spaces throughout Boston's neighborhoods.

Boston Community Schools provides both supportive counseling and recreational opportunities to the City's youth. This Proposed Budget continues

of the budget, it is anticipated that peer leader stipends will be available from external sources.) Finally, although some Community School facility hours may be reduced, all cutbacks will be planned so as to minimize the impact on the hours when young people make use of the facilities.

### **EXPANDED RECYCLING EFFORT**

Building on lessons learned from three years of pilot programs, the Public Works Department will introduce Boston's first City-wide curbside newspaper recycling service. Together with continued neighborhood multi-material programs, in FY92 the City will:

- Recycle at least 16,000 tons of household waste - six times the amount that will be recycled in FY91
- Reach almost the halfway point of diverted tons required to meet the Boston Recycling Ordinance's FY93 target of recycling 20 percent of Boston's household trash.
- Continue efforts to make recycling more cost-effective so further expansion will be easier..

to recognize these as priority services. The Community Schools Division will support 23 street workers who supervise and coordinate a network of 53 other street workers throughout Boston neighborhoods. The Community Schools Division will also maintain 226 peer leader slots in the Youth Outreach, Girls' Center, and Youth Leadership Corps programs. (While stipends for these peer leaders are not included in the general fund portion

Elderly Shuttle. The City will maintain funding for the elderly shuttle service. At a time when the Commonwealth is cutting back its support for elderly services, it is even more important to focus available City funds on maintaining door-to-door transportation services for Boston's older residents.

### **GROWTH IN CITY SPENDING CURRENT AND CONSTANT DOLLARS**

**FY85 - FY92**

(\$ in millions)

	<b>CURRENT \$</b>	<b>% CHANGE</b>	<b>CONSTANT \$</b>	<b>% CHANGE</b>
FY85	<b>998.0</b>		<b>998.0</b>	
FY86	1,034.4	3.6%	997.9	0.0%
FY87	1,136.8	9.9%	1,061.1	6.3%
FY88	1,216.5	7.0%	1,087.9	2.5%
FY89	1,284.0	5.5%	1,094.1	.6%
FY90	1,334.3	3.9%	1,086.6	-.7%
FY91	1,368.5	2.6%	1,055.2	-2.9%
FY92	<b>1,334.8</b>	-2.5%	<b>990.2</b>	-6.2%

FIGURE 1



## **REDUCED APPROPRIATIONS AND COST-CUTTING INITIATIVES**

The Proposed FY92 Budget must be considered in the context of two consecutive years of budget reductions for most departments. Because of past local aid cuts, more than 40 City departments are facing a third year of budget reductions.

As a result of this responsible down-sizing, there were fewer City employees, excluding the School Department, on January 1, 1991 than when Mayor Flynn took office in FY84. This reduction in personnel is even more notable in light of the fact that

City has undertaken a variety of economy measures that range from restrictions on personnel expenditures and more stringent review before filling vacant positions, to virtual elimination of furniture purchases, a freeze on nonessential travel, a review and modification of vehicle assignments, and a freeze on capital budget requests.

In the past two years, funding for the Freedom Trail Commission, and consumer protection activities within the Office of Consumer Affairs and Licensing was eliminated. Arson Commission staffing was consolidated within the Fire Department. The Office of Jobs and Community Services was trans-

### **LOCAL AID CUTS AND STATE MANDATES**

In light of local aid cutbacks, the City needs to reexamine every expenditure including activities mandated by state law. Because of reduced state revenue sharing, this Proposed Budget eliminates funding for three state mandated activities:

- Annual Listing State statute requires that every municipality conduct an annual listing of all residents age 17 and over. The listing is intended to assist in verifying the residence of registered voters and in producing jury lists. The annual listing costs Boston \$500,000. The City will pursue more cost effective ways of accomplishing these objectives and not conduct the listing in FY92.
- Consolidation of Licensing Functions The Licensing Board, established by state law, and the Mayor's Office of Consumer Affairs and Licensing, established by City ordinance, and have responsibilities for licensing entertainment and beverage establishments in the City of Boston. A single licensing agency would make it easier for the public to obtain the necessary permits and provide for operational efficiencies. The City will submit legislation to eliminate the mandated Licensing Board and transfer its authority to the Office of Consumer Affairs and Licensing. Consequently, this Proposed Budget funds both agencies at approximately half their current expenditure levels, with a savings of more than \$400,000 over their joint FY91 appropriation.
- Women's Unit at the South Cove Correctional Facility State law mandates that new correctional facilities include housing for female prisoners but the Commonwealth has not funded the cost of this mandate. This requirement could translate into more than \$2,000,000 in added health care costs that have not been included in the General Fund portion of the Penal Department's budget. The City will request that the Commonwealth provide the additional funding so that the City can fulfill this state mandate.

within the lower total number of employees there are 500 additional public safety personnel.

Figure 1 summarizes the change in City spending over the past eight years. From FY85 until FY92, City expenditure increases have averaged 4.3 percent per year, less than the rate of inflation over the same period. In constant dollars, the proposed spending plan for FY92 is actually less than the dollar equivalent of the City's FY85 expenditures.

Cost Cutting Initiatives, Consolidations, and Program Eliminations Over the past two years, the

ferred to the Economic Development and Industrial Corporation.

Additional consolidations in this Proposed Budget include the consolidation of Environment Department's functions within the Parks Department, and the creation of a Mayor's Office of Boards and Commissions to provide centralized administrative support for the Emergency Shelter Commission, the Women's Commission, the Office of Arts and Humanities, the Human Rights Commission, and the Commission for Persons with Disabilities.



Within the Administrative Services Department, the functions of the Office of Contracts Management and the Cable Division will be absorbed by the Purchasing and Management Information Systems Divisions, respectively. In each case, the consolidation brings together related activities and will provide for administrative savings in carrying out the essential responsibilities of each of the formerly separate divisions.

In addition, selected programs within departmental budgets have been eliminated. These include "Work Smarter," an employee incentive and recognition program; the Labor-Management Cooperation program in the Office of Personnel Management; a program to promote healthier lifestyles to reduce employee health benefit costs; and the Law Department's Immigration Assistance activities.

**Appropriation Reductions** Most City departments will experience appropriation reductions for a third consecutive year. In order to live within their recommended budgets, departments will have to reduce staff, producing a corresponding reduction in services. In total, this FY92 Proposed Budget will require the elimination of 767 City positions funded in FY91.

Basic service departments will experience substantial reductions. The Library Department, for example, with a nine percent budget cut, will be forced to reduce branch library hours by 18 percent. The Public Works budget has been reduced by 11 percent. Even realizing optimistic assumptions about a short-term downturn in disposal costs, Public Works staff will decline by 42 positions by June, 1992 and hand sweeping of streets in downtown and neighborhood business districts will be reduced by 30 percent.

The Parks Department budget will drop by 20 percent. Even with the use of outside funding which cannot be sustained in subsequent years, park maintenance visits will decline by 24 to 37 percent. Trash pickups in neighborhood parks will be reduced. Planting efforts will be substantially curtailed, leading to a long-term decline in park ap-

pearance. The Park Ranger and environmental tour programs will be cut by one-third.

The Inspectional Services Department will cut back on housing, weights and measures, and food inspections. The Department will no longer be able to board up vacant buildings. It will take almost twice as long to respond to animal complaints. The Board of Appeals will meet only half as often.

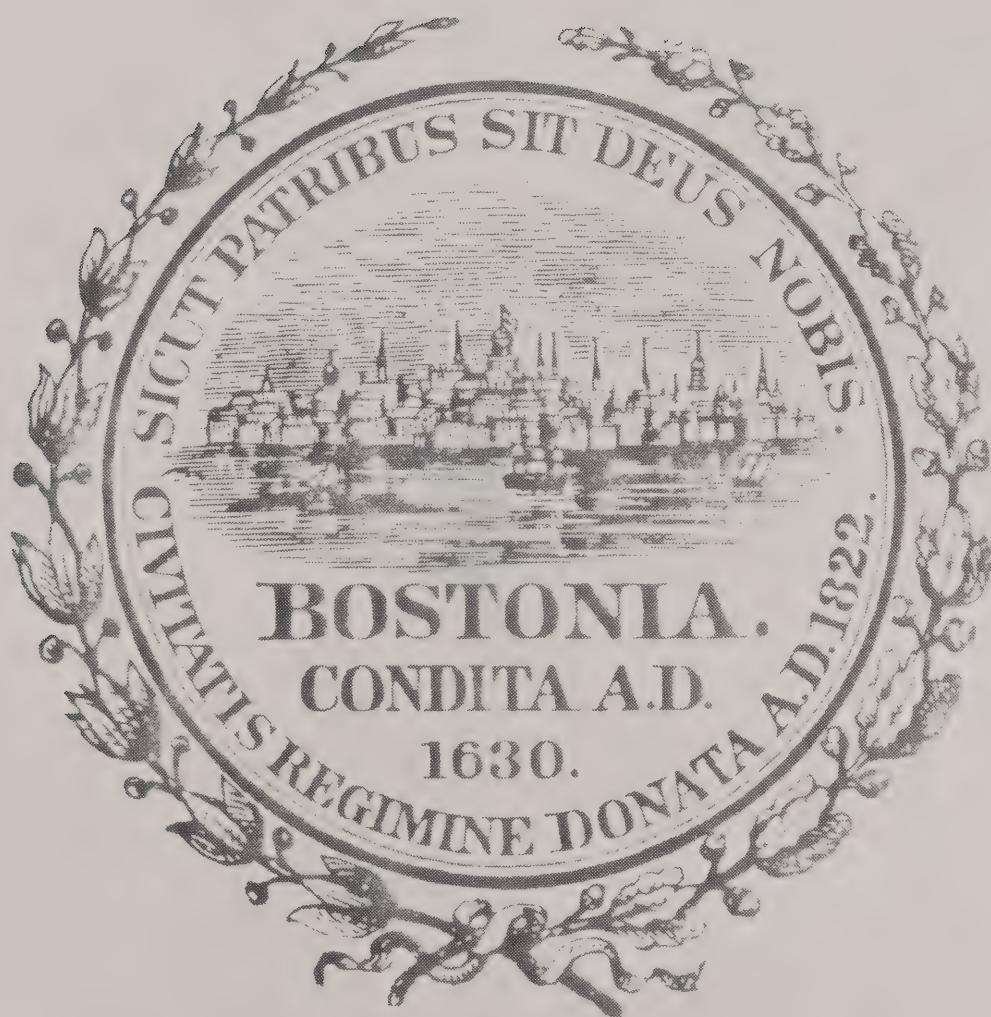
Many administrative departments will face even deeper budget reductions. These reductions will slow down their ability to provide essential services which support the overall operation of City government. For example, with a 13 percent budget cut, it will take the Treasury Department longer to produce the FY91 financial statements. Payroll and vendor payment processing will be slowed in the Auditing Department. There will be a 40 percent reduction in the number of common commodities contracts issued by the Purchasing Division due to a 20 percent budget reduction. There will be a significant drop in the Assessing Department's ability to respond to taxpayer calls and correspondence in a timely manner.

## **THE OUTLOOK FOR THE FUTURE**

As noted above, the FY92 Proposed Budget includes \$59.4 million in budget reductions from FY91 levels. These reductions were a result of revenue declines and increasing fixed costs. Boston's vulnerability to these forces underscores the need for a fundamental revision in the mechanism for generating revenues to support the City's operating budget.

Without the re-establishment of a fair and equitable state revenue sharing policy, or basic changes in the City's ability to raise new revenues, Boston will face even deeper budget cuts in the future. These reductions, which will mean ever-increasing reductions in services, will inevitably impact the City's ability to sustain and nurture the economic activity which makes Boston the economic engine that drives the entire region.







# FINANCIAL TRENDS FOR THE CITY OF BOSTON

## INTRODUCTION

The City of Boston is currently attempting to meet a unique set of challenges. Difficult economic times, continuing withdrawal by the federal government from local government and services, and a seemingly inextricable state fiscal crisis have resulted in decreasing revenues, and, in some instances, increased service responsibilities for the City. In spite of extremely limited options, the City has succeeded to date in maintaining most of the services restored since initial Proposition 2 1/2 cuts nearly a decade ago, as well as a balanced budget and high credit rating. Continuing to do so will become increasingly challenging. In response to the current difficult times the City has reduced personnel in each of the last two years, slowed down capital spending, consolidated departments, withdrawn all offers for collective bargaining increases this year and next, and secured passage in City Council of a package of increases in departmental fees and fines.

In order to maintain its solid financial position, the City attempts to adapt as quickly as possible to local aid reductions flowing from the Commonwealth's continuing fiscal difficulties. In calendar year 1989 when these reductions took place, the City reduced its work force by three percent. As the state has proposed a similar local aid reduction for FY92, the Administration is presenting City Council with a proposed spending plan containing a similar magnitude of personnel reductions.

The City's hard won fiscal stability is attributable to a number of factors. Up through FY89, high levels of taxable new development, increases in local aid, new local option excises, and more ag-

gressive collection of departmental receipts all contributed to healthy growth in revenues. Such growth has been more limited since FY89. In addition, certain important legal and policy-based management and financial controls have assisted in preventing departmental overspending, a problem which had caused financial difficulties for the City in the past.

In order to improve the City's capacity for longer term fiscal planning and analysis, a financial forecasting system has been developed by the Office of Budget and Program Evaluation (OBPE) in conjunction with the State and Local Government Group at Data Resources, Inc. (DRI). This consulting group has extensive experience in state and local economic modelling, forecasting, and analysis.

This collaborative approach has the advantage of drawing upon the respective strengths of both organizations. In addition to technical expertise, DRI provides access to a high quality national and regional economic model. OBPE, in turn, has detailed knowledge of the City's budget and the City's administrative and fiscal policies, as well as the comparable policies of the state which guide distribution of local aid and mandate certain services to be provided on the local level.

Most of the economic assumptions which underlie the forecast discussion come from DRI's national and regional economic models. Tying the City's forecasting system to a national model is important because it provides an objective and consistent set of assumptions on which to discuss all aspects of the City's future operating budgets.

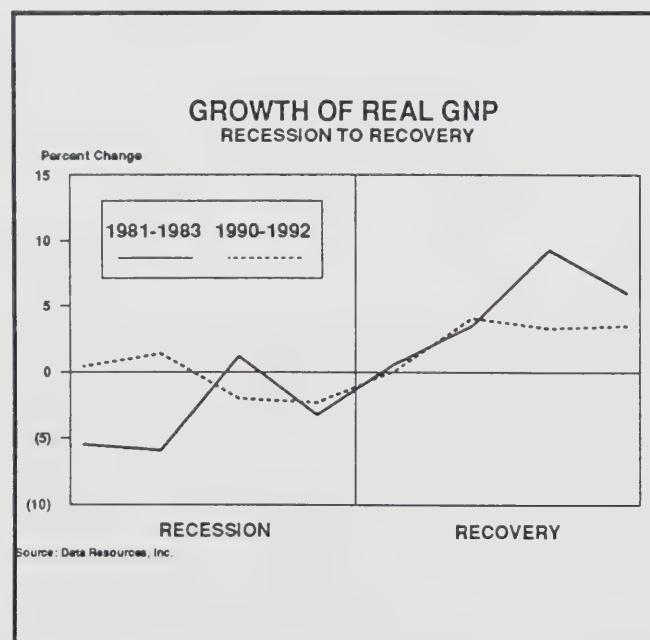


## THE ECONOMIC OUTLOOK

The City's financial situation is less dependent on general economic conditions than the state's. However, because the Commonwealth's tax revenues are clearly economically driven, and because the City is partially dependent on the state distribution of local aid to cities and towns, current underlying national and regional economic trends have a substantial bearing on the City's future fiscal health. These trends, which remain largely beyond the City's direct control, define the economic, demographic, and financial environment in which the City will operate over the next several years.

### The National Outlook

The U.S. economy continued to expand in 1990, but only barely. Real Gross National Product rose a mere 0.9 percent, as weak growth early in the year was followed by a decline in the fourth quarter. A turnaround is expected by mid-1991, but the pace of recovery will be slower than after the 1981-82 recession. Projected moderate growth in 1992 and 1993, about 3 percent each year, points toward an economic performance which will not soon return to the pace experienced in the first half of the 1980's.



The current downturn can be attributed to several factors. While the Gulf War played its part, signs

of weakness were evident before the August invasion of Kuwait, with the economy under-performing since the final quarter of 1989. The federal deficit, the banking crisis, and high levels of corporate debt have existed for some time. These factors have hampered growth by making it difficult or unprofitable for businesses to finance modernization or expansion. This can be seen in the investment figures. Non-residential structures have not seen any sustained growth in five years, and showed exceptional weakness in the first half of 1989. Investment in equipment held up until the last quarter of 1989, but has had its ups and downs since then.

The slowdown was not restricted to business investment, and had certainly reached the consumer by 1989. Total consumption did not turn down until the end of 1990, but durables have been weak since early 1989, registering only 3.7 percent growth in that year, compared to 8.1 percent averaged between 1985 and 1988. Unimpressive gains in real disposable income, only 2.4 percent in 1989, made this inevitable. With even less impressive income performance in 1990 — real disposable income began to shrink in the third quarter — total consumption finally turned down in the fourth quarter of that year.

The start of Gulf hostilities helped this downward momentum. Oil prices jumped from \$20 to \$30 per barrel, while stock prices headed downwards. By October, the consumer confidence index had registered its largest three month decline since the series was started. Employment plunged in December and in January. The value of households' corporate equity holdings, a measure that reflects the value of stocks and other equities, fell significantly during the third and fourth quarters. The decline in consumption was inevitable.

Over the year as a whole, adjusted for inflation, disposable income gained only 0.8 percent, consumption only 1.0 percent, nonresidential investment 1.8 percent, and GNP 0.9 percent. The outlook for 1991 shows the downward trend continuing in the early part of the year, with federal government spending the only component of GNP expected to



increase in the first quarter. Consumption, exports, and residential fixed investment will begin to show improvement in the second quarter, while business investment will not recover until the end of the year.

The situation in financial markets will continue to be a critical determinant of the economy's health. Restrictive lending policies and changing federal regulations in the wake of the savings and loan debacle effectively rationed loans to the private sector. This certainly contributed to the economy's weak performance. More recently, the Federal Reserve has been aggressively lowering rates. There are now signs that Fed easing has had some effect on the monetary aggregates, suggesting that the credit crunch might be easing. However, it is too early to see any improvement in loan activity, and DRI anticipates that credit will still remain fairly tight through 1993.

In addition to tight credit, investment will also be moderated by demographics. Household formation has slowed, reducing the need for housing, and further limiting the positive effects of cyclically low mortgage rates. Housing starts in 1991 are likely to be their lowest since 1982. Similarly, the upturn in nonresidential structures will need to wait for the absorption of unused office space. Investment in equipment will begin to improve mid-year, but structures will continue to decline into 1992,

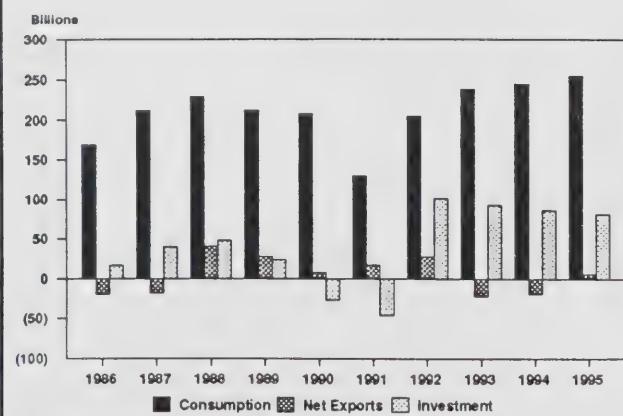
moderating the improvement we can expect in total business investment. The DRI forecast calls for a 7.0 percent decline in structures and a 1.2 percent decline in equipment for 1991. Structures continue to show negative growth in 1992, losing 0.3 percent, but investment in equipment grows almost 7.0 percent.

Foreign trade will contribute to growth much earlier, and in fact, the merchandise trade balance has been improving since mid-1990, largely the result of consumers having cut back on imports. Exports will also help, as a weak dollar makes U.S. goods cheaper overseas. While the currency has already begun to increase from its February low, DRI does not expect it to move high enough to threaten further expansion of U.S. manufacturers' market share. Contracts for the rebuilding of Kuwait will also help. The merchandise trade balance will improve by \$29 billion in 1991, as imports barely change and exports register a 3.4 percent increase. Both exports and imports increase more rapidly in the 1992-93 period, and by 1993 import levels have exceeded exports and the merchandise trade imbalance grows to -\$93.9 billion, from -\$66.8 billion in 1991.

There are two sources of uncertainty in this year's forecast. One comes from capital markets and the other from consumers. The federal budget deficit is headed towards a record \$285.9 billion. At the same time, Eastern Europe and parts of the Middle East will be seeking to borrow. Bond markets have already anticipated this, and bonds are up more than 25 basis points from their levels at the start of the war. The increasing demand for funds, combined with wary bankers at home and a Federal Reserve ever vigilant against inflation, suggests that there is some risk that the credit crunch will not ease.

The second potential stumbling block might be a recalcitrant consumer. The forecast calls for a 2.2 percent drop in real per capita disposable income during the downturn. Job losses, tax increases, and inflation will make it harder for people to spend. In DRI's pessimistic scenario, real consumption expenditures drop 1.0 percent in 1991, compared to a 0.1 percent decline in the baseline forecast.

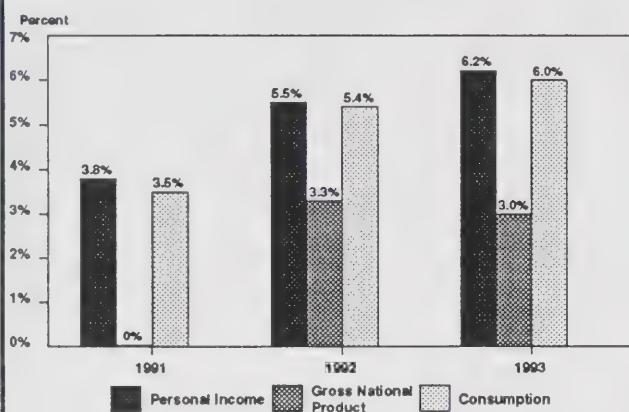
#### CONTRIBUTIONS TO GNP GROWTH



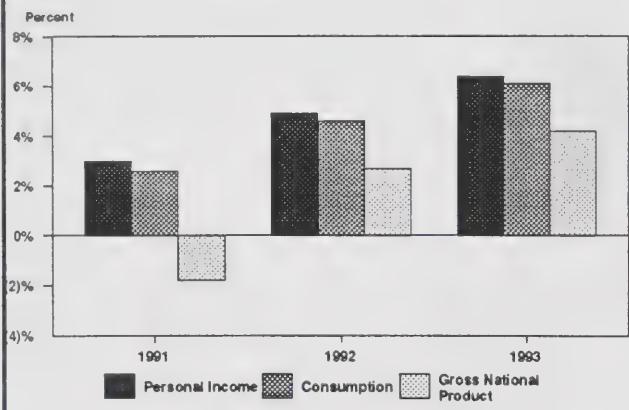
Source: Data Resources, Inc.



### DRI BASE FORECAST



### DRI PESSIMISTIC FORECAST



Nobody is buying, and inventories and then investment are affected. Business services, banking, and retail trade suffer. The Federal Reserve loosens policy, but the recovery is stalled until late 1991. DRI places a 20 percent probability on this pessimistic scenario, with real GNP growth at -1.8 percent, 2.7 percent, and 4.2 percent over the 1991-93 period. This compares to the baseline forecast of 0 percent, 3.3 percent and 3.0 percent.

### The State Outlook

Massachusetts and all of New England experienced impressive growth through most of the

1980's, with employment and income gains surpassing other regions. This began to change in 1989, and the next few years will continue to see growth in other areas of the U.S. surpassing that in New England. New England is following the national cycle into a period of more moderate growth, but the relative downturn from the 1980's will be larger here than in other parts of the country, due both to our very rapid expansion in the 1980's and the industry mix which made that expansion possible.

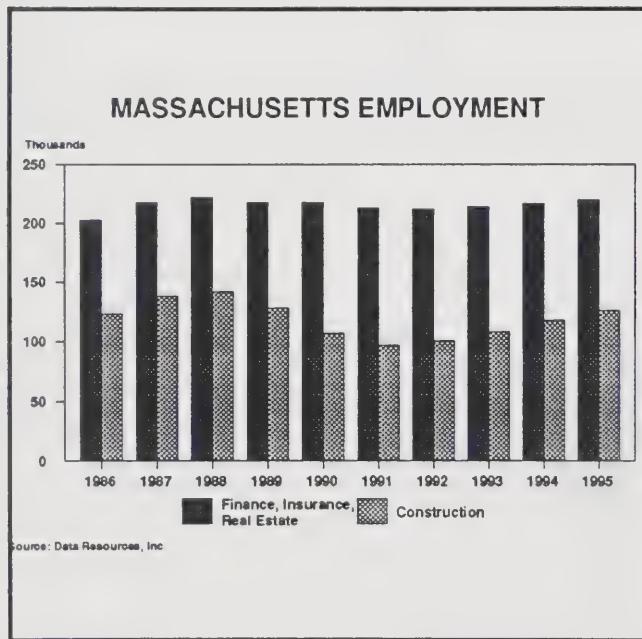
The local downturn is partially the result of those very factors that contributed to our strong growth earlier in the decade. Continued employment gains throughout the 1980's lowered our unemployment rate, causing labor shortages in some areas and subsequent wage increases. Over the period between 1985 through 1989, wage and salary gains averaged 9.4 percent per year in Massachusetts. Higher personal income, fueled by wages and salaries, as well as increased equity values, pushed up not only consumer goods purchases, but housing demand as well. Particularly after high interest rates earlier in the 1980's had excluded many people from the housing market, very strong demand pushed housing prices up an average of 13 percent per year between 1985 and 1989. By contributing to homeowners' feelings of wealth, the inflated real estate market had the side effect of fueling higher levels of consumer spending. Through increasing employment and income in the construction trades, the mid-80's building boom had a similar effect on consumption.

By 1989, a combination of this building boom and a slowdown in other parts of the local economy resulted in an oversupply of both office and residential space. Construction has therefore become one area in which the New England economy has recently shown much greater declines than the nation. Between 1988 and 1990, the value of new construction contracts dropped 35 percent in Massachusetts, 38 percent in New England, and 10 percent in the U.S.

Other New England industries have been particularly hard hit, and the industry mix that helped in the 1980's has contributed to the extremity of



the current regional recession. In Massachusetts, the concentration in computers and finance brought extremely rapid growth. Massachusetts also reaped the benefits of an expanding Defense Department budget, becoming the fourth ranked state for defense prime contracts and receiving \$7.26 billion in FY88. While many of the country's traditional manufactured exports lost out, Massachusetts doubled its exports between 1980 and 1988; and while the state has lost over 10,000 manufacturing jobs since the mid-1980's, it gained



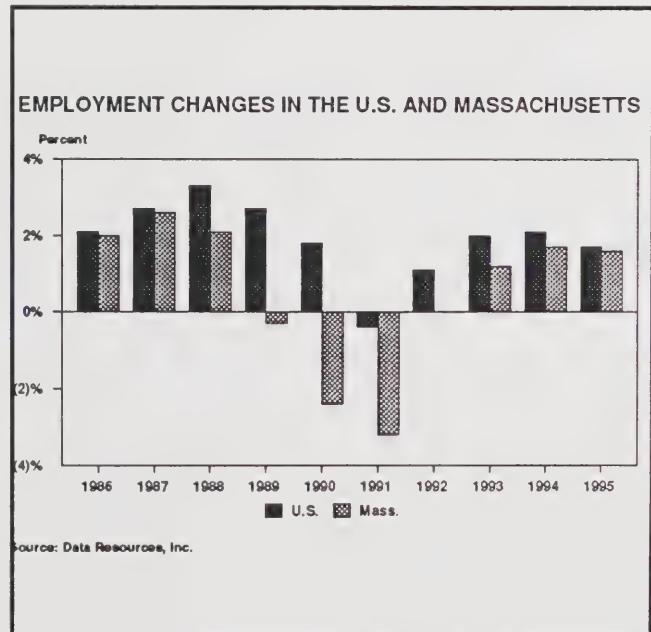
approximately 600,000 non-manufacturing jobs during the decade.

It seems that now even some of these non-manufacturing jobs are threatened. The high technology area provides one example. In the past few years, demand for PC's rather than mini-computers has hurt the local computer industry. In addition, businesses are currently deferring investment spending, so it may be some time before orders pick up. DRI forecasts a fall of 0.9 percent in computers and office supply investment in 1991 and growth of only 0.5 percent in 1992. These are national numbers, and reflect the entire industry. They do not distinguish among the different types of computers or office machinery made in different regions, so that the numbers for New England could be even more pessimistic.

Finance and real estate are other areas that have seen sharp declines. The decline of real estate markets and resultant bank losses have reduced profits and employment. Following tremendous growth in the mid-1980's, total employment in finance, insurance, and real estate began falling in the second quarter of 1988. Declines will continue through early 1992.

The outlook for the region's defense industry is less clear, given the Persian Gulf War and its effect on the defense budget. In addition to questions surrounding the amount of federal spending, there are those concerning distribution among programs and therefore regions. The Patriot missile's Gulf performance, for example, may influence this distribution.

DRI forecasts that 500,000 jobs will be lost nationally during the recession, and that 100,000 of these will be in New England. While the region accounts for only 6 percent of the nation's employment, it will suffer 20 percent of the total jobs lost. In addition, the region will experience a more protracted



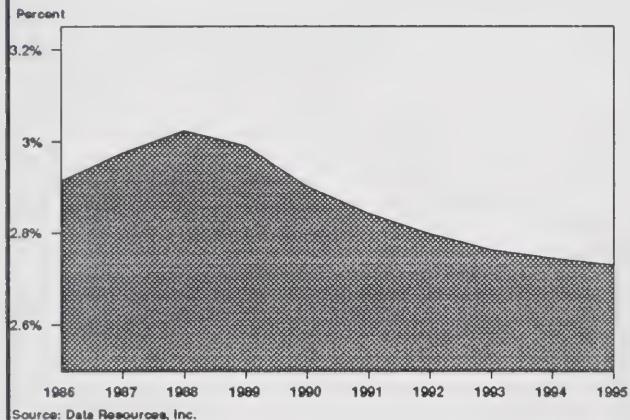
downturn, losing a total of 340,000 jobs over the three years 1989-91. As a result, Massachusetts' 1991 share of U.S. personal income will be 6 percent below its 1988 peak.

The employment outlook is better in some areas than others, and Massachusetts should see growth



in its health industry. Boston has approximately 68,000 people working in health-related jobs, including just under 8,000 in medical research. The Boston Redevelopment Authority is estimating that in research alone, another 4,000 will be added during the 1990's. Demand for medical research space will also stimulate construction activity, with approximately 2.85 million square feet required over the next several years. Similarly, the \$4.4 billion Central Artery and Third Harbor Tunnel

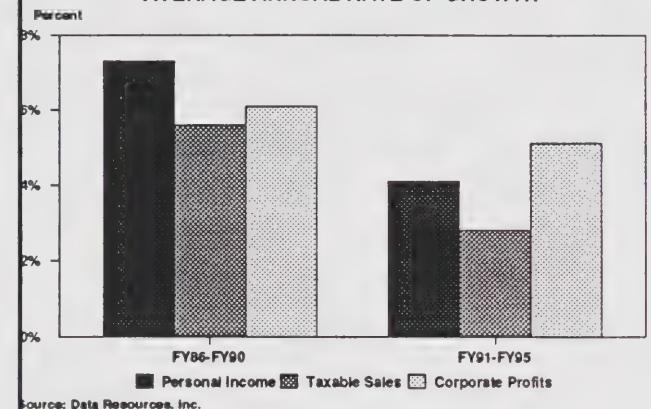
#### MASSACHUSETTS SHARE OF TOTAL U.S. INCOME



projects will create over 3,000 construction jobs per year during the 1990's, plus approximately 3,500 nonconstruction jobs. The \$6.1 billion Harbor Cleanup project will employ an average of 1,730 construction people during the 1991-95 period.

Overall, the beginning of the decade will bring slower growth in the state's economy, with Massachusetts' share of national income declining throughout the five year forecast period. Personal income growth has slowed from its 8.2 percent average over the 1985-89 period, to a 2.3 percent average during 1990-91. The forecast calls for a 4.7 percent average growth in personal income during the 1992-95 period. Inevitably, tax receipts will follow suit. Our forecast calls for state sales, personal income, and corporate taxes to average only 4.2 percent growth during 1990 and 1991, despite increasing tax rates and the additions of a

#### MASSACHUSETTS ECONOMIC BASES AVERAGE ANNUAL RATE OF GROWTH



tax on commercial electricity and telecommunication services. Over the 1992-95 period, with no further tax law changes, revenue growth will average a somewhat higher 5.6 percent.

#### The Local Revenue Outlook

For revenues, the local outlook depends largely on the City's two largest local revenue sources: the property tax and hospital revenues. Both the property tax structure and the regulations for most of the reimbursements received by the City's hospitals are set by state law. Both of these items have provided the City with significant revenue growth in recent years.

**Property Tax:** Forecasting increases in the property tax levy under the strictures of Proposition 2 1/2 is fairly straightforward. There are three major provisions of Proposition 2 1/2 which either were or continue to be significant to forecasting the levy. The first provision requires that a municipality's tax levy be less than 2.5 percent of assessed valuation of taxable property. Subsequent to the City's cutting back the property tax levy from \$518 million to \$333 million between FY82 and FY84, and after several years in which the City has experienced an unprecedented appreciation of commercial and residential real estate values, the tax rate is so far below the 2.5 percent limit that this



provision of Proposition 2 1/2 has become a moot issue.

The second relevant provision limits a municipality, with certain exceptions, from increasing its levy over the prior year by more than an additional 2.5 percent. In Boston, the property tax levy has been set at the maximum legal limit since the passage of Proposition 2 1/2. It appears relatively certain that over the forecast period the City will continue to make full use of the allowable 2.5 percent increase in its levy under Proposition 2 1/2.

The third significant provision provides for an exclusion from the 2.5 percent annual growth limit of the tax value of any new construction or significant renovations. This provision allowed the property tax levy to increase at rates significantly above the nominal 2.5 percent limit during the City's boom in commercial development during the 1980's.

Assuming Proposition 2 1/2 remains in effect over the forecast period, and assuming that the City continues its policy of maximizing the allowable 2.5 percent growth, the primary variable in determining future growth in property tax revenues will continue to be new development.

Last year the City projected a FY91-FY95 annual average for taxable new value of \$929 million. While the FY91 amount, representing new construction and renovation which took place during calendar year 1989, actually exceeded this average by 15 percent, events definitely took a turn for the worse during 1990. The amount of taxable new value assumed in the FY92 budget is 37 percent under last year's assumed five-year average. With the downturn in the national and regional economy especially hard hitting for some of Boston's major service industries, the recent increase in office vacancies is unlikely to reverse quickly. Furthermore, the banks' reluctance to lend to developers in the wake of the excesses of at least the latter phase of the 1980's building boom and the resulting deterioration in their loan portfolios, suggests that it may be a few years before Boston comes close to meeting that five year projected average for taxable new value.

Nevertheless, the City can continue to count on the property tax levy for at least some modest growth each year. However, this percentage growth will tend to diminish from year to year to a point where it grows no faster than inflation. Consequently, the City needs either new revenue sources or an adjustment to Proposition 2 1/2 which might switch from the arbitrary 2.5 percent growth limit to a growth limit linked to inflation.

**Hospital Revenues:** The level of revenues derived from the operation of Boston City Hospital (BCH) is largely determined by health care cost-containment legislation. This legislation governs health insurance reimbursement methodologies for all acute care hospitals in the state and provides for an uncompensated care pool which directly pays the costs of bad debt and free care to hospitals, including BCH, which have rates of uncompensated care exceeding the statewide average.

The mix of revenues at BCH is not typical of the average hospital. BCH provides care for the City's poor and uninsured and for a large portion of the uninsured outside of its market area; within its market area, it serves only a small portion of the privately insured. Consequently, BCH's uncompensated care is subsidized by Medicaid, which is supported 50 percent by the state and 50 percent by the federal government, and by the uncompensated care pool which is supported by a surcharge on medical rates.

The legislation governing health insurance reimbursement for Massachusetts acute care hospitals such as BCH has inflation drivers built into the reimbursement rates which are cost based. For federal fiscal year 1988, inflation is factored into the rates by applying national cost indexes from DRI to the average mix of Massachusetts acute care hospital expenditures, plus an additional 2 percent. The same method is applied for federal fiscal years 1989 through 1991, with the adfactor reduced to 1 percent. It is generally recognized that the inflation for the cost of local medical services far exceeds national levels, and it is expected that the use of national cost indexes with only a



limited adfactor helps motivate hospitals to control costs.

In November, 1990, BCH gained final approval of a federal mortgage guarantee and approximately \$169 million was borrowed to cover the costs of rebuilding of the BCH facility. The rebuilding plan is such that operations and reimbursements will not be negatively impacted during the course of construction and renovation. The new facility will result in a more self-sufficient financial operation, including a smaller work force and greater efficiency of operations over the forecast period. These changes will help to maintain a balance between costs and reimbursements in the future.

## **The Expenditure Outlook**

In light of major cutbacks in services driven largely by the revenue side of the budget during the three year period from FY90 to FY92, the fine-tuned discussion in previous years' "Financial Trends" revolving around demographic and inflationary factors subtly influencing the City's outlook for service levels and service costs is set aside here in favor of thorough discussions about three of the City's major expenditure areas.

**Collective Bargaining:** Approximately two-thirds of the City's departmental spending is in the form of direct salaries and wages to employees. With the important exceptions of school employees and City managers, most collective bargaining contracts expired on June 30, 1990, just before the beginning of the current fiscal year. Negotiations went slowly as management, in light of local aid reductions, offered increases which fell short of what union negotiators considered sufficient. Subsequently, even deeper cuts in local aid were proposed for FY92. This became the major reason cited by the City for pulling its offers off the table in February, 1991. Thus, the current versions of the FY91 and FY92 budgets assume no collective bargaining increases. This parallels the wage freeze which has already taken place at the state level for roughly three years. The latest shortfalls in state revenues in March, 1991, yet to be incorporated in the state's FY92 deficit projection, offer little encouragement for local aid in the near-term.

This could make collective bargaining increases unlikely anytime soon. In fact, as both the state and municipalities go about the business of issuing more layoff notices, and as the state's unemployment rate appears poised to top 10 percent, talk of collective bargaining increases has receded. When revenues decrease as is the case for FY92, the only other means for the City to offer collective bargaining increases is to trade off services for salary increases. This is especially difficult to do when services are already being cut back, and often are increasingly difficult to maintain at adequate levels as both the federal and state governments reduce their own service commitments.

Furthermore, the forecast assumes a mild recovery from the current recession. Thus, it is unlikely that the state and the City will be in a position to later retroactively make up for the deterioration in its employees spending power caused by the gap between inflation and frozen wages.

**Pension Costs:** The 1987 Commonwealth Pension Reform Act gave Massachusetts local retirement systems the option to change fundamentally their method for financing retirement costs. Boston's State-Boston Retirement System became the first local system to elect the "fully-funded" option. In doing so Boston committed to switching from a "pay-as-you-go" method of financing its pension costs to a fully funded method of financing, beginning in FY90. This change impacts the City's long-term outlook on pension costs.

Under a pay-as-you-go method, the actual pension payroll for current retirees serves as the main basis for each year's pension appropriation. Under this method, a newly founded system has very little expense for the first several years. However, each year the current employees "earn" a portion of their future pension benefit. As a greater number of employees retire, actual pension costs rise significantly and continue to rise for many years. For example, in FY69 Boston appropriated funds for pension costs equal to only 6.0 percent of its total departmental costs. Between FY69 and FY80 this percentage grew every year except one to finally reach 13.7 percent. At a certain point a retirement system "matures"; a full complement of retirees



passes through the system, and the number of retirees on the pension payroll stabilizes. This state of maturity contributes to the fiscal soundness of a retirement system. Boston's retirement system reached this state of "maturity" several years ago.

Under a fully funded method of financing, a system sets aside funds for future pension liabilities as they are incurred by current employees. An actuarial determination is made as to what percentage of the personnel payroll is sufficient to fund the future retirement costs accrued by employees for any given year. Assumptions about mortality, investment rate, salary growth, turnover rate, entry and retirement ages, and other aspects of a retirement system contribute to this determination. The resulting future liability incurred during any one year is called the "normal cost."

Under the 1987 Pension Reform Act, the conversion from a pay-as-you-go system to a fully funded system involves a 40 year transition. During the 40 years the "unfunded accrued pension liability" is gradually reduced to zero. The unfunded accrued pension liability is the total of all the accrued benefits earned in previous years both by the employees and the retirees, less any available assets. The amortization payments grow at an annual rate of 4.5 percent, in accordance with the law.

Thus, for 40 years beginning in FY90 the City's pension costs will consist of two components — the "normal cost" for a year and the amortized portion of the unfunded liability. The combination of these components will be laid out in a "funding schedule" that will be updated periodically over the 40 years. At the end of the 40 year schedule, the "normal cost," or currently incurred liability, will be the only pension cost which the City will have to continue to fund.

Over the forecast period the adoption of the local option provisions of the 1987 Pension Reform Act has several effects on Boston. Certain provisions will result in an increase in the underlying costs of the pension system; according to the statute the City was to be compensated for these by a pension grant from the Commonwealth during the first 15 years of the funding schedule. As of yet, the Com-

monwealth has not fulfilled this legal obligation. The outlook for the pension funding schedule appears favorable. Based on the calculations of the most recent actuarial valuation, the system's costs under the full funding schedule will be lower than its actual pay-as-you-go costs. However, under the Pension Reform Act, in tandem with accepting the local option provisions, a local retirement system must appropriate at least its pay-as-you-go costs for the first six years of its funding schedule.

In accordance with the funding schedule, from FY91 forward, pension costs will increase by less than 5 percent per year. The "unfunded liability" component of the costs will grow at 4.5 percent per year, as directed by the law; the normal cost component, as a constant percentage of the payroll, will grow by the assumed long-term payroll growth rate of between 4.5 percent and 5.0 percent. The less than 5 percent growth per year is within the bounds of the City's long-term revenue growth, and therefore pension funding, particularly when offset by the legally obligated pension grants from the Commonwealth, should not create difficulties for the City in future budgets.

**Debt Service:** Following the approval of Proposition 2 1/2 in 1980 and the subsequent suspension of the City's bond rating, the City ceased raising funds in the capital markets and deferred planned capital projects. Without new borrowings, principal and interest on long-term debt declined. This reduced expenditures for debt service in the short-term, but it jeopardized the condition and quality of the public infrastructure necessary to support future economic growth.

In FY84, the City returned to the capital markets to finance long deferred capital projects. Since then the City has entered the market six times for general obligation borrowings, and once for a refunding of general obligation bonds with high interest rates. The annual cost of servicing both this new debt and previously incurred debt has increased only marginally. And as a percentage of recurring expenditures it has remained low in comparison to the recent past: from FY84 - FY87 it ranged from 7.6 percent to 8.2 percent; from FY89 - FY92 it has ranged from 6.1 percent to 6.8 per-



cent. Assuming the City maintains the current five-year plan, and assuming no major surprises in the long-term outlook for overall expenditures, it appears likely the City will be able to maintain the lower range of 6 percent to 7 percent for debt service as a percentage of total recurring expenditures during the mid-1990's.

Several factors have contributed to this favorable position in the recent past. First, the City structures its borrowing so as to retire debt rapidly. Second, the rating agencies have recognized the City's improved financial condition and have raised its bond rating several times to the current levels of "A" by both Moody's and Standard & Poor's; this has improved the City's image in the capital markets. Third, the City has managed its cash flow such that short-term borrowings were not needed in each of the last three fiscal years. The challenge for the City will be to continue this success with rating agencies and in the markets in spite of the state of the economy, the Commonwealth's tarnished image in the market, and potential further cuts in local aid.

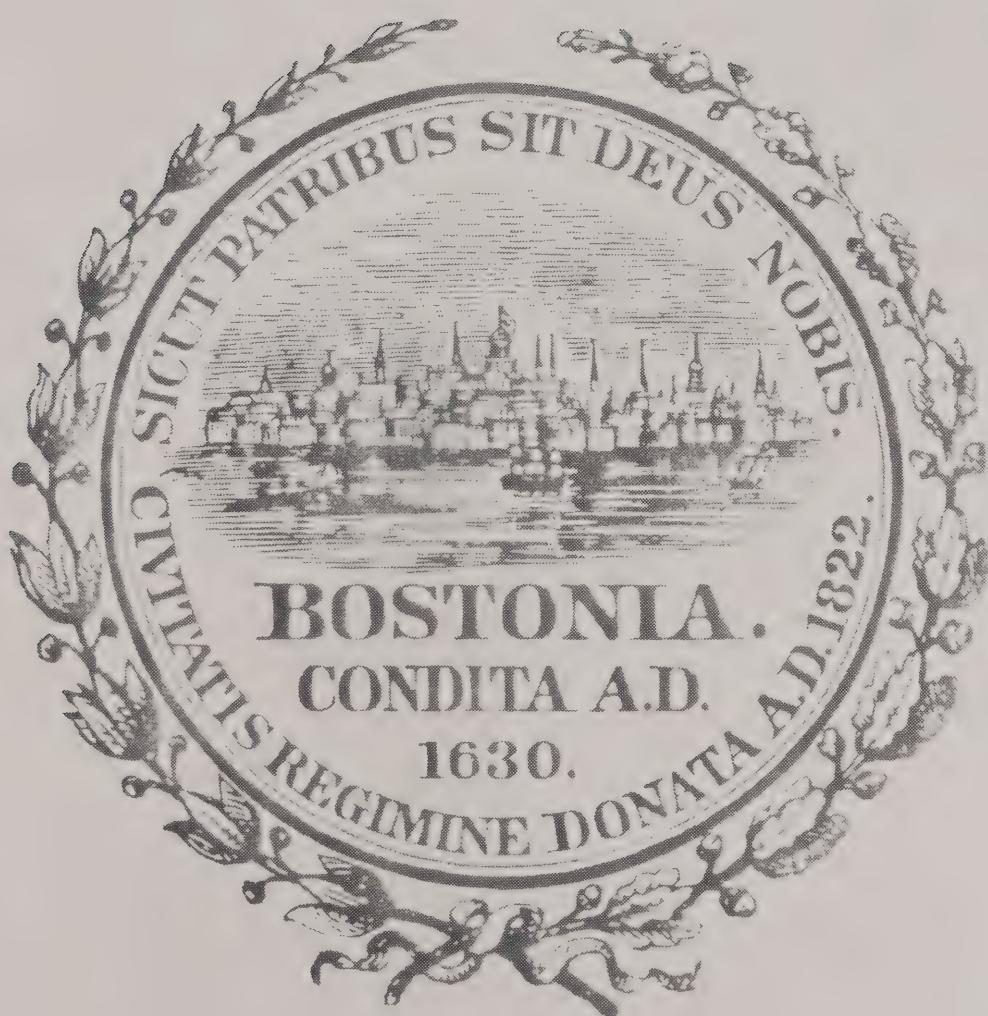
The City monitors closely the link between its capital and operating budgets. The City has slowed down the rate of capital expenditures in response to

reductions in local aid. Also, service reductions in operating departments naturally limit the ability of the City to maintain newly constructed or refurbished facilities.

## **CONCLUSION**

To date, the City has made the necessary budget adjustments as economic bad news and a seemingly inextricable state fiscal crisis has resulted in profound reductions in local aid to municipalities. Its last five budgets have been balanced and its capital and pension financing are both on very sound footing. The current proposed budget for FY92, in fact, will make the deepest cuts in service departments since the early 1980's when Proposition 2 1/2 reduced the property tax levy from \$518 million to \$333 million in just three years. By most accounts, the current recession will be longer and deeper for the New England region. Meanwhile, the City has dramatically reduced its room to maneuver because of the pending budget reductions and its use of available reserves. Thus, the next 18 months represent a precarious period in the economy in which the City will have both limited resources and limited choices with which to cushion itself against any further fiscal problems.







# LOCAL AID

There is a growing mismatch between the services which Boston and other Massachusetts cities and towns are asked and expected to provide, and their ability to raise revenue to support these services. Rooted in the restrictions imposed by Proposition 2 1/2, this mismatch is greatly exacerbated as the Commonwealth continues to cut local aid and fails to come to grips with its own financial problems. The recent suggestion that FY91 local aid payments may be reduced at the eleventh hour is simply intolerable to Boston and other communities which have made a good faith effort to maintain balanced budgets in the face of shrinking local aid payments.

Heavy reliance on the property tax, coupled with the restrictions imposed by Proposition 2 1/2, limits Boston's ability to raise revenue to pay for basic municipal services. While the effect of these restrictions was somewhat mitigated in the 1980's because of increased local aid from the Commonwealth, the state's current fiscal crisis, and the reductions in local aid since FY89, have heightened awareness of the fragility of this source of compensating revenue. The events of the past two years have clearly demonstrated that Boston must have more predictability to, and control over, its revenue stream in order to provide the services which residents, businesses, and visitors expect of the City.

This chapter describes the crucial role which local aid has played in offsetting the impact of Proposition 2 1/2 on Boston in the past decade, and how the state's crumbling commitment to revenue sharing will lead to a downward spiral in the quantity and quality of essential City services.

## THE IMPACT OF PROPOSITION 2 1/2 ON MUNICIPAL REVENUES

Proposition 2 1/2 was designed to lower property taxes. The good news is that in most respects it

worked very well. The bad news is what has happened to the balance sheets and income statements of Boston and other cities and towns, and the subsequent impact on their ability to provide basic municipal services. A brief history is important to establish the context in which the current local aid crisis is taking place.

Revenue Reductions in the Aftermath of Proposition 2 1/2. Prior to 1980 Massachusetts cities and towns relied on the property tax as their principal source of revenue. During the middle and late 1970's, the strains of inflation forced increases in municipal budgets and property taxes. The state was undergoing a crisis of its own and reduced local aid to solve its problems. The resulting rapid increase in property taxes led to great citizen anger and eventually to the passage of Proposition 2 1/2. Specifically designed to limit the escalating burden of the property taxes on homeowners, the proposition passed overwhelmingly.

Under Proposition 2 1/2, the property tax levy cannot exceed 2 1/2 percent of the cash valuation of the taxable real estate and personal property in a municipality. Where levies exceeded the 2 1/2 percent limitation, annual reductions were required until the 2 1/2 percent limitation was achieved. Once this limitation was reached, annual growth in the levy was limited to a 2 1/2 percent increase, plus additional levy from new construction in the current year.

The reductions in the early 1980's to achieve the 2 1/2 percent levy limit created a painful hardship for communities throughout the Commonwealth. One hundred seventy cities and towns cut their levies at least once between FY82 and FY85. Except for the wealthy and some smaller communities, virtually all the Commonwealth's cities and towns were compelled to make significant cuts in budgets, programs, and payrolls beyond what they believed wise and prudent. Proposition 2 1/2 had



a corresponding dramatic effect on municipal bond ratings. Between December, 1980 and December, 1984, 37 Massachusetts communities suffered a downgrade by Moody's bond rating service, while only six were upgraded.

In Boston, Proposition 2 1/2's effects on tax receipts were catastrophic. From fiscal year 1981 through fiscal year 1984, Boston lost over \$400 million in tax revenue. Its property tax levy fell by \$185 million. The percentage reduction in the motor vehicle excise tax, the City's only other source of tax revenue, was even more dramatic. The City's bond rating dropped and then was

in FY81, despite the fact that inflation averaged 4.2 percent annually between FY84 and FY89.

If the 2 1/2 percent growth cap was removed, but the overall 2 1/2 limitation on assessments remained, Boston would have been able to collect an additional \$299 million in property tax revenues in FY91. Allowing property tax revenues to increase to reflect increases in true property wealth, or at least the general inflation rate, would place a heavier burden on low income, but "property-rich," residents. On the other hand, such a policy would give the City more flexibility to pay for services by allowing revenues to increase at some-

<b>TAX REVENUE GROWTH</b> <b>CITY OF BOSTON</b>						
	<b>(1980 - 1985)</b>					
	<b>(\$ IN MILLIONS)</b>					
	<b>FY80</b>	<b>FY81</b>	<b>FY82</b>	<b>FY83</b>	<b>FY84</b>	<b>FY85</b>
GROSS LEVY						
PROPERTY TAX	\$439.5	\$518.7	\$440.7	\$374.6	\$334.0	\$363.9
MOTOR VEHICLE						
EXCISE TAX	\$16.4	\$11.2	\$6.8	\$7.5	\$8.6	\$10.7
TOTAL TAX						
RECEIPTS	\$455.9	\$529.9	\$447.5	\$382.1	\$342.6	\$374.6
						<b>% DECREASE</b>
						(17.4%)
						(32.9%)
						(17.9%)

FIGURE 1

suspended as a result of the property tax rollback.

Limited Tax Levy Increases in Recent Years. Even after the total tax levy was reduced to 2 1/2 percent of total assessments, Proposition 2 1/2 provided stringent limits on tax levy growth. First, total assessments could grow only at the rate of 2 1/2 percent, plus the value of new construction. This meant that eight years later in FY90, total property tax levy amounted to only \$2 million, or four-tenths of one percent, more than the levy collected

what the same rate as the costs the City must bear.

Another way of looking at the impact of the limitations imposed by Proposition 2 1/2 is to consider the amount of revenue growth that is due to new construction. For example, nearly 40 percent of the growth in Boston's property tax levy since 1984 (\$138.5 million) is a result of an atypical construction boom during the last decade. The current softening of the state's economy and the associated drop in new construction means that property tax



revenue growth in FY92 will be smaller than at any time in the past eight years.

**Continued Over-Reliance on Property Tax Revenues.** Massachusetts cities and towns currently have few opportunities to broaden their municipal tax base; the only available local option taxes are the jet fuel and room occupancy excises. Although Boston has taken full advantage of these options since 1985, they add only a modest amount to total City revenues. Nationally, cities with a population of 300,000 or more generate, on average, only about 55 percent of tax revenues from property taxes because sales and income taxes allow for a more diversified tax base. But in FY92, 92 percent of Boston's local tax revenue will come from the property tax levy.

## **LOCAL AID SINCE 1981**

Especially since the passage of Proposition 2 1/2, state revenue sharing in the form of local aid has been a critical element in making up the difference between the limited tax revenues available to cities and towns and the demand for basic public services — police and fire protection, education, public works, and health care — that municipalities are expected to provide.

As generally used, "local aid" means state distributions to municipal general revenues from the state's Chapter 70 and additional assistance accounts (which are jointly referred to as resolution aid) and lottery distributions. The amount of these funds to be distributed each year to an individual community is described (along with other relatively smaller state programs such as equal education opportunity funding, school construction reimbursements and highway funds) on the "cherry sheet," so named because it is printed on bright pink paper. In general, the amount of true revenue sharing each community receives is somewhat less than the cherry sheet total because the state also assesses cities and towns for significant costs such as a portion of the MBTA's debt service.

**Local Aid as an Offset to 2 1/2.** In the early 1980's state and local leaders understood that while homeowners believed property tax levels were ag-

gravatingly high and needed to be reduced, most also wanted to maintain critical municipal services. As a result of this understandable, albeit contradictory, attitude, the Commonwealth pledged that it would henceforth share 40 percent of its so-called "growth" taxes in the form of direct, general purpose local aid with its cities and towns. (The "growth" taxes are the Commonwealth's income, sales and corporate excise taxes.)

This policy led to a dependable level of local aid growth through the 1980's. In principle, if the Commonwealth believed it would realize an increase of \$500 million in the following fiscal year in those three taxes, it would promise \$200 million in increased direct, general purpose local aid for the upcoming year, spread out among all cities and towns. In essence, the Commonwealth created a general revenue sharing program by returning tax dollars back to cities and towns from whence they came, but distributed in a manner that took into consideration the revenue capacity and services needs of those communities. Communities became dependent upon this funding mechanism.

It has been suggested that the state's incentive to provide increased local aid to municipalities was as much pragmatic as philanthropic. The Commonwealth realized that some communities, confronted with huge revenue decreases and increasing services needs, would likely face bankruptcy and the state would subsequently inherit local service responsibilities anyway. The spectre of municipal bankruptcies will be raised again in FY92 without assurance that there will be no further decline in local aid payments.

The 40 percent pledge was only actually achieved in half of the years between FY84 and FY91, and this level of achievement was generally a consequence of lower than projected revenues, rather than increased concern for cities and towns. But the state's policy of sharing its growth revenues did lead to some level of local aid growth through FY89. In FY81 local aid amounted to about one-fifth of all municipal revenues statewide. In FY89, by contrast, it represented almost one-third of all local revenues.



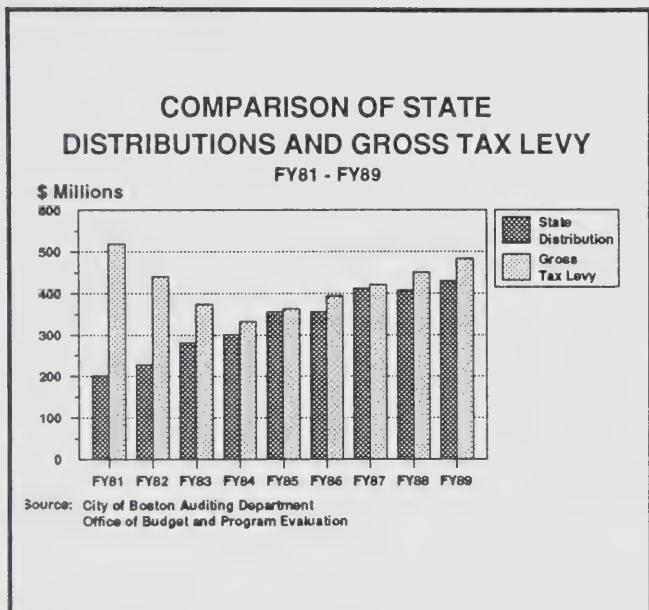


FIGURE 2

Boston's experience was typical: local aid was 21 percent of all general fund revenue in FY81. By FY89 it had increased to 32 percent. (Figure 2.) But local aid amounts, when added to Boston's own tax receipts, were still not enough to bring Boston's revenues back to the fiscal year 1981 level for some time. It was not until 1986 that City tax receipts plus local aid exceeded FY81 nominal revenues. And in constant dollars, the total of local

aid plus the property tax levy is still considerably below its 1981 level.

The Commonwealth's Fiscal Situation. The Commonwealth experienced several years of exceptional revenue growth before the recent revenue slowdown. (Figure 3.) For four straight years, from 1984 through 1987, the growth in personal income tax receipts was 10 percent or higher. From 1984 through 1986 the growth in overall sales taxes was 15 percent or higher, and from 1984

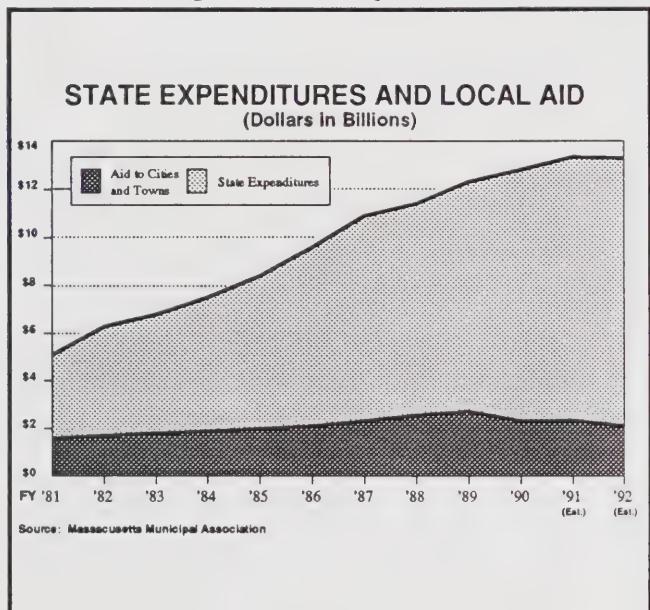


FIGURE 4

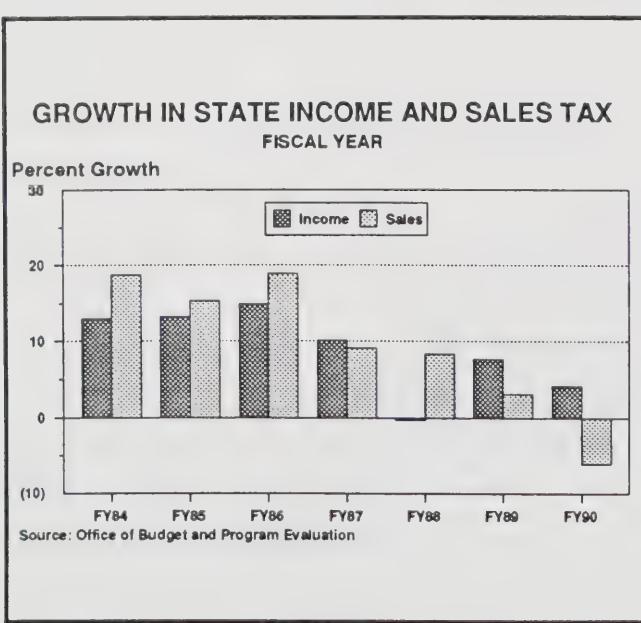


FIGURE 3

through 1986 corporate income tax receipts grew by 12.5 percent or more. In FY89 these three growth taxes represented 82 percent of total Commonwealth tax receipts and 63 percent of total state revenues. As Figure 4 shows, however, this strong growth was not shared proportionally with cities and towns.

Unfortunately for both the Commonwealth and cities and towns, the exceptionally strong state revenue growth came to an abrupt halt in FY88. The recent slowdown in revenues, coupled with a substantial growth in state government expenditures spurred in part by the sense of confidence caused by the earlier revenue growth, has helped to produce the current state fiscal crisis. But the moderate growth in local aid, when compared with other state expenditures, makes it doubly difficult



to accept the fact that reduced local aid is seen as a solution to the state's problems without regard to local consequences. With the exception of higher education, local aid has received the largest cut of any significant state expenditure category in the past three years.

**History of Local Aid Cuts.** The Commonwealth's attempts to balance its recent budgets have had disastrous consequences for cities and towns. In FY90 the Legislature eliminated the increase in local aid recommended by the governor, despite the fact that communities had come to depend on local aid increases as an ongoing growth revenue source. More painful were the local aid vetoes and withholdings announced by the governor in July of 1990. Of \$491 million in total reductions, a disproportionate \$225 million (55 percent) came in the form of reductions to cherry sheet distributions. This was despite the fact that local aid and other assistance to communities accounted for only 31 percent of the pre-veto budget. The fact that these withholdings were returned by the Supreme Judicial Court on a one-time basis has had little long term impact on municipal revenues.

In August of 1990 local aid was again reduced after most communities, including Boston, had enacted their FY91 budgets. This time it was the legisla-

ture that enacted a 4 percent reduction without the opportunity for communities to describe the impact of this action at public hearings. Now the City is facing the possibility of further reductions at the end of the fiscal year when it will be impossible to react proactively.

Figure 5 contrasts the cumulative growth in state expenditures less local aid since FY84 with the much slower growth in Boston expenditures. On average, Boston's spending grew by 5.4 percent per year over this seven year period, while Commonwealth expenditures, net of direct and indirect local aid, grew by more than twice as much or 11.25 percent per year.

For Boston, local aid reductions effectively translated into a \$20 million local aid cut in FY90 and an additional \$19 million in FY91. Local aid dropped from 32 percent to 26 percent of the City's total recurring revenue in three years. Absorbing these reductions has been extremely difficult because so much of the City's appropriated budget is for departments which provide the most basic municipal services. Fully 77 percent of the FY92 proposed departmental appropriations is devoted to five essential departments — Schools, Health and Hospitals, Police, Fire, and Public Works.

For FY92, and notwithstanding a campaign pledge to the contrary, the Weld administration has proposed to cut cherry sheet aid by an additional \$110 million more on top of the \$355 million in cuts already made over the past two years. The proposed cut will disproportionately impact Boston because the City will bear 26 percent of this reduction, even though Boston represents only 10 percent of the state's total population.

**Boston's Unique Role in the Regional Economy.** Boston is the key to the health of the regional economy. With 10 percent of the state's population, the City is responsible for fully 23 percent of all the goods and services produced in the Commonwealth. Boston hosts 33 colleges and nine of the country's top teaching hospitals, supporting valuable research in new technologies which translates into the development of new local industries. These non-profit colleges and hospitals which have

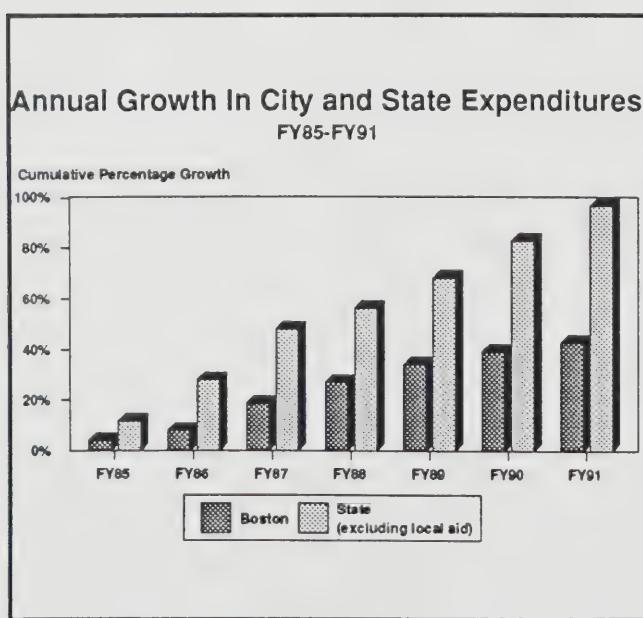


FIGURE 5



access to City services do not contribute to the property tax base. In fact, half of the City's land is tax exempt, with 26 percent being owned by the Commonwealth.

The impact of local aid cuts on the City is compounded given that Boston faces extraordinary demands for services at the same time that so much of its land is exempt from property taxes. The population of the City doubles each day as commuters and visitors enter the City. As a result, the City must provide police and fire protection, and has to clean up after twice as many people as it would otherwise. In addition, few large municipalities nationwide assume, as does Boston, such a wide array of fiscal responsibilities including schools, hospitals and county costs.

For example, Boston City Hospital handles 25 percent of the state's uninsured patients, and treats a large and growing number of AIDS patients and babies who are born drug addicted or are chronically undernourished. Boston attracts individuals in desperate need of food and shelter, faces drug and crime problems not found in suburbia, and is also

a focal point for a new wave of immigrants. Boston alone is responsible for the entire cost of operating Suffolk County's expanding correctional facilities.

To the extent that local aid reductions cause a deterioration of critical services within the City, the Commonwealth's willingness to reduce local aid is self-defeating. If Boston is the economic engine that helps to drive the Commonwealth's economy, local aid reductions undercut the services which keep that engine running.

Local aid is needed (and has been used) to support essential municipal services. Widespread public support for local aid was clearly demonstrated in the substantial margin of approval for Question 5 in last fall's referendum vote. The Commonwealth is now attempting to absolve itself of a commitment upon which 351 cities and towns have relied in order to maintain municipal services. Reductions in local aid will inevitably mean a reduction in the very services which the voters have deemed important to protect.







# COMPARATIVE REVENUE ESTIMATES AND ANALYSIS

## INTRODUCTION

Following is a description of all City revenues which are deposited in the General Fund, as categorized in the Summary Budget. Most revenues received by the City are included in this chapter which discusses property tax levy, state distributions, hospital reimbursements, departmental income, excise taxes, and other significant revenue sources. The descriptions include the recent history of each revenue source, and the underlying assumptions behind the FY92 projections.

If assumptions prove correct, FY92 will mark the fifth straight year in which growth in revenue will be less than the previous year, and the first year of an actual decrease in total revenues since FY82. Assuming the accuracy of FY91 and FY92 projections, from FY87 through FY92 total revenue growth will have gone from 10 percent to 7 percent to 6 percent to 4 percent to 2 percent to -2 percent.

The single biggest factor in this slowdown is local aid which was level funded after the fact in FY90, drastically decreased in FY91, and is slated for another projected major decrease for FY92. This contrasts starkly with the steady and dependable growth in local aid to cities and towns during the 1980's. Since FY90 the state has resorted to reduced assistance to cities and towns in order to address its own as yet unresolved budget difficulties. Departmental receipts will weaken in FY91 and FY92 due in part to some of the unique items received in the prior three years not recurring in similar magnitude. Furthermore, the use of budgetary fund balance in FY91 to help offset the \$40 million cutback in state distributions cannot be fully replicated in FY92.

There are two areas of major revenue growth that will help mitigate the bad news in other areas during FY91 and FY92. During both years, the property tax levy will grow at a level approximating inflation. Hospital receipts during these two years are significantly above recent historical levels, in part because of the positive settlements of reimbursements owed in prior years.

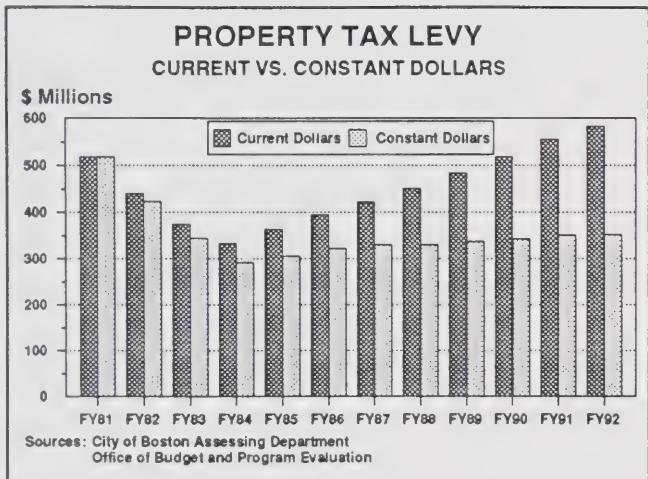
## PROPERTY TAX LEVY

The property tax levy has been the City's most dependable source of major revenue growth during the past eight years. In FY92 it will provide 43 percent of all City revenue. The increases have been steady and consistent from FY85 to FY91, ranging from \$28 million to \$36 million. (See Property Tax Levy FY81-92.) It should be noted, however, that because of the increasing property tax levy base, the \$30 million in FY85 represented an 8.9 percent increase, while the \$25 million increase estimated for FY92 represents only a 4.6 percent growth rate.

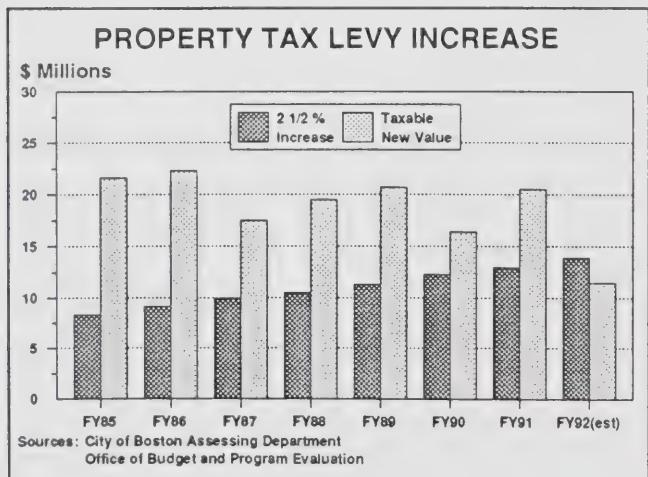
Property Tax Levy Under Proposition 2 1/2. When Proposition 2 1/2 was approved, the City's property tax levy was significantly higher than 2 1/2 percent of assessed cash value. The City was required to reduce its property tax levy by approximately \$78 million in FY82, \$66.1 million in FY83 and \$40.6 million in FY84, resulting in a FY84 levy of \$334 million, and in a reduction in tax revenue compounded over three years of \$406.8 million. The FY84 property tax levy was the lowest it had been since 1971.

Once the mandated property tax reductions were achieved in FY84, the City could then anticipate regular growth in its property tax revenues in fol-





lowing years due to (1) the allowed 2 1/2 percent increase, plus (2) the value of new construction added to the tax base. Because of the pressing demand to restore sorely needed City services, the City chose to maximize revenue growth allowed under Proposition 2 1/2. In the first year, FY85, the allowable 2 1/2 percent increase produced an addition of \$8.3 million to the levy. As the levy base has increased each year, so has the 2 1/2 percent in-



crease, reaching \$13.9 million for FY92. (See Property Tax Levy Increase.)

The arbitrary nature of the allowable 2 1/2 percent increase in the levy has been noted by legislators and special commissions studying both state and local fiscal problems. With inflationary costs for providing City services ranging between 5 percent and 8 percent, a 2 1/2 percent increase has not allowed cities and towns to support an adequate level of services via property taxes. From FY82 until

FY89, increases in local aid became the vehicle for maintaining adequate local services. In the past two years a significant portion of this source has, in effect, been "taken back" because of the state budget deficit. Cities and towns are left with implementation of major cutbacks in municipal services as the only alternative to an unbalanced budget. As a result, the legislature has from time to time entertained proposals which would adjust the allowable increase in the levy to reflect a reasonable index of inflation and to help mitigate this severe long-term restriction imposed by Proposition 2 1/2. Most recently such a proposal was passed in the House, rejected in the Senate, and did not survive conference committee.

Proposition 2 1/2 excludes from the limit on the annual levy increase any new properties and any increases in property valuations which are not related to municipal-wide revaluations. Prior to an amendment to Proposition 2 1/2 passed in March, 1991, the exclusion had been more limited: certain residential property had to have more than a 50 percent increase in valuation; and commercial, industrial and personal property had to have more than a \$100,000 increase in valuation. This modest change in the law will aid municipalities in their ability to capture the tax value of new construction, new personal property, and changes from exempt to taxable status.

The total increases in levy attributable to taxable new value in FY90 and FY91 were approximately \$16 million and \$20 million, respectively. The tax levy projection presented in the FY92 budget assumes an increase of \$11.5 million in the levy due to taxable new value. The lower growth is due to the significant slowdown in both residential and commercial development.

It took eight years, from FY82 to FY90, under the restrictions imposed by Proposition 2 1/2 for the levy to finally return in current dollar terms to its FY81 high. In constant dollars, however, the FY91 tax levy is still over 30 percent less than FY81's levy total, and this is in spite of the addition of \$6.6 billion of new taxable value onto the property tax base between FY85 and FY91.



Property Values in Boston. Up until recently, the value of property located in Boston experienced a very high rate of appreciation. This has been reflected in each of the three triennial City-wide revaluations completed by the Assessing Department, in which all taxable properties have been revalued at 100 percent of fair cash value as mandated by state law. The first revaluation resulted in a certified property valuation of \$12.2 billion as of January 1, 1982. The second City-wide property revaluation established the value of taxable property in the City as of January 1, 1985 at \$20.2 billion. The third City-wide revaluation established the value of taxable property in the City as of January 1, 1988 at \$35.4 billion. The enormous task of revaluing all the City's taxable properties has been completed in a more timely and accurate fashion with each succeeding revaluation. The City is currently in the process of doing its fourth City-wide revaluation which will estimate values as of January 1, 1991 and is expected to be completed on schedule.

In the years between full revaluations the City has the option of doing property value trending computations to reflect significant changes in values which may occur. For the certified property valuations for January 1, 1989 and January 1, 1990, the City determined that values had not changed significantly enough to warrant property value trending computations. Thus, the certified property valuations for these two dates of \$35.8 billion and \$36.4 billion represented minimal change from the January 1, 1988 full revaluation.

Limiting the Residential Tax Burden. Between FY83 and FY91 the residential tax rate dropped from \$21.47 per \$1,000 valuation to \$8.93; the rate for commercial and other property declined from \$40.30 to \$25.09 per \$1,000 valuation. The differing rates for residential and commercial property are the result of the City's utilization of the so-called classification law, added to the state constitution in 1978, and amended in 1988. Cities and towns are given the option of determining the share, within specific limits, of the annual levy derived from the various categories of property. Prior to the 1988 amendment to the classification

law, the portion of the levy derived from residential property had to be at least 65 percent of its share of the total taxable value. Similarly, the portion of the levy derived from commercial, industrial, and personal property could not exceed 150 percent of its share of the total value. The 1988 amendment changed these parameters from 65 percent to 50 percent, and 150 percent to 175 percent respectively, with one significant qualification: that the adoption of a lower residential factor could not result in the residential burden of the total property tax levy being lower than its lowest percentage since the state first certified the municipality's values as representing 100 percent fair cash value. From FY83 onward, the City has classified its tax rates in order to minimize the residential tax burden to the full extent allowable by the classification law.

New Property Tax Collection Options. The Budget Control and Reform Act of 1989, signed by the Governor in January, 1990, attempts to give cities and towns two new options in administering property taxes. The first is to change the date for valuing new construction and other forms of taxable new value from January 1 to June 30. This would allow a one-time eighteen month calculation for that portion of the levy. The City has chosen not to pursue this option because it may be legally flawed and would invite successful challenges to valuations based on a June 30 date.

The second option allows municipalities to send out tax bills quarterly rather than semi-annually. Benefits include a more steady cash flow and a modest increase in investment income. While the Administration is more favorably disposed to a bill pending in the legislature which emphasizes earlier rather than more frequent property tax billing, it is weighing the option of sending quarterly tax bills for FY92.

## **STATE DISTRIBUTIONS**

No other factor has had as profound an impact on Boston's operating budget than the breakdown of the Commonwealth's local aid funding policy over the past 24 months. Since March, 1989, when the House of Representatives rescinded the last



proposed net increase in unrestricted local aid, the governor and the legislature have continued, albeit somewhat haphazardly, a defunding of state revenue sharing with cities, towns, and regional schools.

The four largest components in state distributions to Boston are resolution aid, lottery distributions, 121A distributions, and teacher pension reimbursements. The latter two are somewhat unique to Boston and are not truly local aid. For this reason they are listed separately on Boston's budget summary. In fact, their inclusion on the City's "cherry sheet" (which lists the various local aid amounts to be distributed to municipalities) gives an inflated picture of Boston's aid in comparison with the other 350 municipalities in the Commonwealth.

The essential element in the Commonwealth's local aid revenue sharing is resolution aid. In fact, in public discussion "local aid" and "resolution aid" are often used interchangeably. Lottery distributions are a second, relatively smaller, component of general revenue sharing. As noted below, transfers from the highway fund, which are relatively unimportant to Boston, are a third element which in the past has not been a factor in shaping the state's revenue sharing policy.

Resolution Aid: Revenue Sharing in Response to Proposition 2 1/2. Throughout most of the 1980's a reasonable annual increase in resolution aid was an essential component in Boston's financial planning. Boston is substantially more dependent than most major cities on property tax revenues. The enactment of Proposition 2 1/2 would have had an even more serious impact on the delivery of basic City services had it not been offset by increases in resolution aid between 1982 and 1989. The Commonwealth recognized that state revenue sharing in the form of local aid was essential to maintaining critical local services.

The stubborn persistence of the state's economic and fiscal problems has resulted in a continuing downward pressure on revenue sharing to cities, towns, and regional school districts. Overall, FY91 direct local aid was reduced by \$331 million, compared to FY90. Governor Weld has proposed

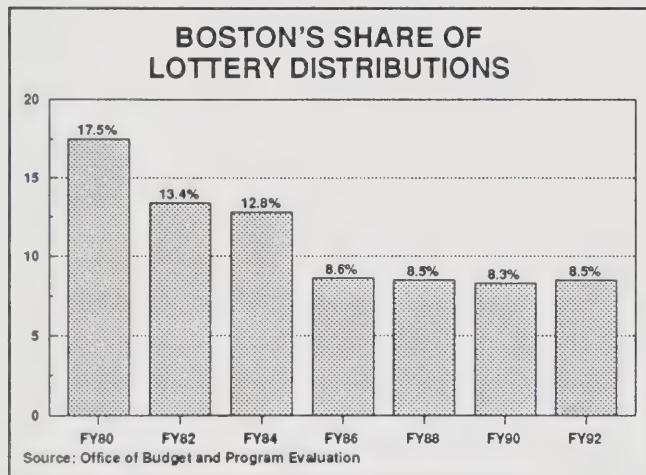
for FY92 an additional \$250 million cut in resolution aid to cities and towns. In some communities the impact of this proposed cut would be fully offset by a \$79 million transfer from the highway fund, some portion of which is an accumulation of past reserves, and a \$75 million increase in estimated lottery receipts based upon projected increases in sales and reduced administration costs. As a result of the particular choice of cuts and increases, cities such as Boston will bear the brunt of the cuts while many smaller communities in central and western Massachusetts that are favored in the highway aid and lottery aid formulas will actually receive local aid increases. With 10 percent of the state's population, Boston actually bears over 25 percent of the total proposed local aid cut.

The recent cuts in local aid have fundamentally altered the financial relationship between the state and its municipalities, ending an eight year period (FY82 - FY89) in which a stable and dependable local aid funding policy allowed for planning and predictability in local budgets and services. Estimating state cherry sheet distributions has consequently become problematic. FY92 will be the third straight year in which there have been no actual approved local aid allocations available prior to the submission of the Mayor's budget to City Council.

Lottery Distributions. As noted in the accompanying chart, the City's share of state lottery distributions, an important component of local aid, has also steadily eroded during the 1980's from 17.5 percent in FY80 to 8.5 percent in FY92 (less than the City's share of the state population). It was therefore unfortunate, from the City's point of view, that the new governor has proposed offsetting a \$250 million cut in resolution aid to cities and towns with a \$75 million increase in lottery distributions since the City's share of resolution aid is more than double its lottery share. The City's share of the proposed \$75 million FY92 increase is 9.25 percent, thus bumping up slightly the City's overall share of lottery from 8.3 percent to 8.5 percent. The choice of lottery distributions as an offset to resolution aid cuts is a major factor contributing to Boston's absorbing a disproportionate share of the



overall proposed local aid cut. The main factor driving Boston's low share of lottery proceeds is the emphasis in the lottery distribution formula on equalized valuation per capita, a number which increased more dramatically for Boston than most other municipalities in the 1980's. The use of equalized valuation per capita as a revenue



capacity measure is outdated since the property tax levy itself is capped. In recognition of this, the state began in FY88 to apply the formula only to the incremental increase for the current year.

**Chapter 121A Distributions.** The Urban Redevelopment Corporation excise is a municipal excise in-lieu-of-tax for which the state acts as the collector and distributor. This revenue item experienced very solid growth between FY81 and FY88, going from \$13.5 million to \$32.3 million. Since FY88, this revenue has remained relatively stable. In FY91 and FY92 the City has projected for Chapter 121A, section 10 distributions, \$30.3 million and \$32.0 million, respectively.

The Chapter 121A legislation, passed in 1960, allows local governments, in cooperation with their redevelopment authorities, to suspend the imposition of property taxes at their normal levels on properties determined to be blighted, in order to encourage redevelopment of such properties by special corporations organized under this legislation. (Boston at the time had gone through an extended period of limited major new development.) The formula for the 121A, section 10 excise in-lieu-of-tax is the greater of: (a) \$10 per \$1,000 of value es-

tablished at the time in which the excise first becomes payable plus 5 percent of gross income, or (b) the current tax rate times the average of the last three years' assessments (or the current assessment if that is less).

**Teacher Pension Reimbursements.** Boston's "cherry sheet" includes an item unique to the City: the teachers' pension reimbursement for pension charges to the City. Boston is reimbursed for the prior year costs associated with pensions paid to retired Boston teachers. After remaining in the \$20 million to \$22 million range from FY84 to FY89, the reimbursement increased to \$23 million in FY90, and \$25.7 million in FY91. This increase has been driven by an increase in teacher retirements. Because of the older demographic profile of the City's teachers, the City expects this growth to continue. The FY92 projection is \$26 million.

The pensions paid to retired teachers from all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System. In a singular arrangement mandated by general law, pensions paid to retired Boston teachers are paid by the State-Boston Retirement System, which charges the City of Boston for this cost; the City is reimbursed on the cherry sheet by the Commonwealth. In short, the Boston teachers' pension payroll is administered locally, but, as with all other teachers' pensions in the state, is the financial responsibility of the Commonwealth.

## HOSPITAL INCOME

The City currently operates three hospitals: Boston City, Long Island, and Mattapan. Boston City Hospital, the largest, is a 357 bed acute care hospital which for the last seven years has accounted for over 80 percent of the City's hospital reimbursements. Long Island and Mattapan are chronic care hospitals with operations significantly smaller than Boston City Hospital. Due to changes in federal reimbursement policies and for public health reasons, the Department of Health and Hospitals is in the process of moving chronic care patients from the Long Island facility. Over the years, Long Island's expenditures have tended to exceed its



reimbursements as the facility has become less appropriate for chronic care.

In FY88, FY89, and FY90 the City recorded reimbursements from all three hospitals totalling \$147.3 million, \$154.7 million, and \$158.0 million respectively. For the current fiscal year, the City estimated in the budget that hospital income would total \$172 million, a figure which is now likely to be exceeded. The significant increase from FY90 to FY91 was due in large measure to the payment of settlements of prior year Medicaid rates. Such payments are realized in most fiscal years; however, the City does not expect as high a level to be realized in FY92 and has projected \$168.1 million in revenue. The closing of Long Island is incorporated into the FY92 revenue projection.

The increase projected for FY91 reflects in part action by the legislature to rectify the state's failure over the past several years to process Medicaid bills in a timely fashion. Recognizing the accumulated amounts of Medicaid payments owed to hospitals and nursing homes throughout the state, the legislature authorized borrowing to support payments owed from previous years. Thus, a significant "catching up" on settlements for past fiscal years is reflected in the healthy FY91 year-to-date hospital reimbursements. This "catching up" continues a long tradition which has generally been characterized by periods of delayed reimbursement alternating with suddenly accelerated or lump-sum payments to catch up with prior years' liabilities. In some years this has occurred because of delay in replacing acute care hospital reimbursement legislation which has expired, or gradual implementation of the new legislation. In spite of these timing fluctuations, the fundamental structure for Medicaid reimbursements to Boston City Hospital has remained intact.

The breakdown of payment sources for the patients cared for at Boston City Hospital, as recorded in FY89, was approximately as follows: 40 percent self-pay/reimbursement for uncompensated care; 29 percent Medicaid; 17 percent Medicare; 4 percent Blue-Cross/Blue-Shield; 10 percent other. Boston City Hospital, because of its patient population, nearly 80 percent of which was drawn

from the hospital's surrounding lower income neighborhoods, is compensated for its disproportionate share of non-insured and non-paying patients from both the state uncompensated care pool and Medicaid.

Since October, 1985, inpatient Medicare payments for Boston City Hospital and all other Massachusetts acute care hospitals have been governed by the Medicare prospective payment diagnostic related group method of reimbursement (PPS). The prospective payments are based on national and regional diagnosis related group rates without regard to specific acute inpatient operating costs. Outpatient costs, on the other hand, have generally remained cost-based.

In the fall of 1990 the City secured a Federal Housing Administration loan guarantee and proceeded to finance the renovation and new construction project for Boston City Hospital. Upon completion of the single largest capital project ever planned by the City, Boston City Hospital will be a far more efficient and modern facility. It is significant to the City's long-term revenue outlook that the relevant capital costs are reimbursable elements of medical rates. Straight-line depreciation on buildings, debt, capital leases, and rent are all currently allowable costs in determining the cost-based rates. In addition, Medicare reimburses for capital costs on the basis of its share of actual costs, less 15 percent.

Chapter 574 of the Acts of 1985 established a state-wide pool which is funded from an add-on to billing rates for hospitals with less than the state-wide average of uncompensated care. This pool reimburses hospitals such as Boston City Hospital based upon their disproportionate share of uncompensated care. Boston City Hospital receives over \$20 million per year from the uncompensated care pool.

The uncompensated care pool was continued by Chapter 23 of the Acts of 1988, but the administration of the pool was switched from Blue-Cross/Blue-Shield to the newly established state Division of Medical Insurance. Chapter 23 both implements the state's universal health care pro-



gram, and provides the basis for the Massachusetts acute care hospital reimbursement system. It continues the uncompensated care pool, but caps the funding raised from the add-on to hospital billing rates. A commitment was made in Chapter 23 for the state to finance uncompensated care pool costs incurred above the cap. This commitment and the actual administration by the state of the uncompensated care pool have been included in the myriad of cost cutting issues in question as the state grapples with its third straight budget deficit amid a transition between administrations.

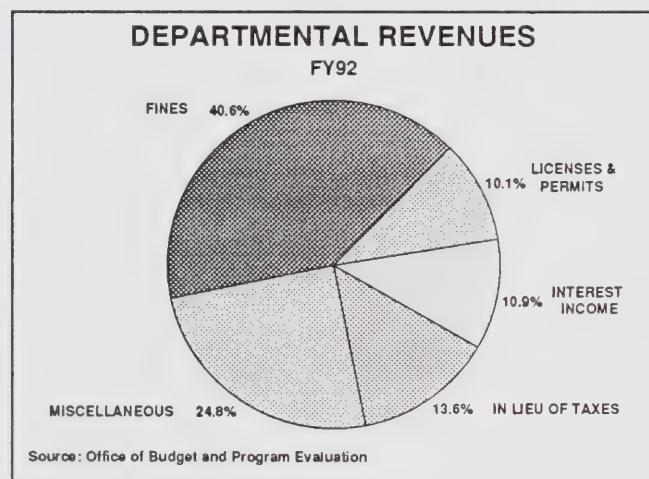
## DEPARTMENTAL REVENUES

In FY92, departmental revenues will account for about 10 percent of all General Fund revenues. The level of many departmental revenues is under the direct control of the City. For example, changes in the City's fee or fine structure can occur from either administrative actions or a vote of City Council, unlike new tax options or local aid distributions which require approval from the state legislature. This helps to explain the fact that departmental revenues outpaced the property tax levy, local aid, and hospital income between FY84 and FY90 as the fastest growing major revenue category. This, however, will no longer be the case as departmental receipts decrease during both FY91 and FY92.

Departmental revenues have increased as a result of more aggressive collections and investment, administrative initiatives, economic factors, and fee and fine increases. The most recent package of fee

and fine increases was proposed, approved and implemented just prior to the beginning of FY91.

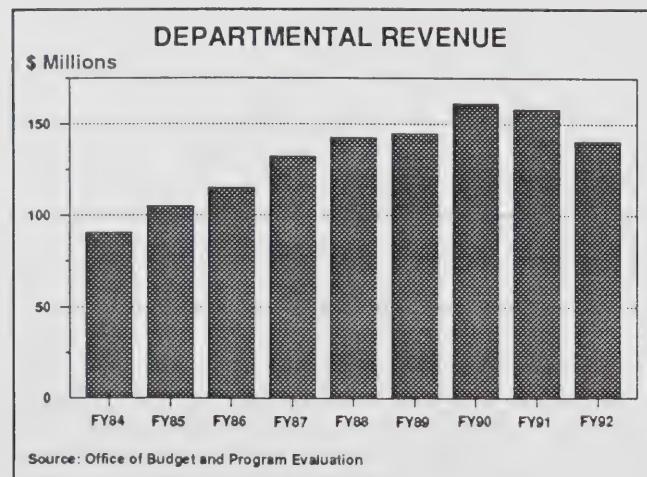
Most major revenue items have increased substantially since FY84, though some have fallen back in the last few years. Building permits increased dramatically from FY84 to FY88, but have decreased since FY88. Interest income increased dramatically from FY84 to FY89, but decreased in FY90. Parking fines and payments-in-lieu-of-taxes have maintained their growth since FY84. All these items are described in more detail below.



Together these sources have averaged over 60 percent of departmental revenues in the last several budgets. (See Departmental Revenue, and Departmental Revenues, FY92.)

It is currently expected that FY91 will be the first budget in several years in which the City will not meet projected local receipts as recorded in the fall tax rate. (Local receipts include local excise taxes, hospital receipts, and departmental receipts, but does not include "funds available for appropriation" such as revenue from the parking meter fund and the cemetery trust accounts.) The overwhelming factor driving this shortfall is parking fine receipts, described in detail below. In concurrence with the filing of this budget, the Administration is filing an appropriation order for the unallocated certified free cash (\$4.3 million) to offset an expected FY91 local receipts shortfall.

Parking Fine Revenues. In FY83, receipts more than doubled from the prior year as a result of trans-





fer of enforcement authority from the district courts to the City. Between FY84 and FY88, parking fine receipts outpaced inflation. Major factors figuring in this growth included non-renewal of violators' registrations and licenses by the state Department of Motor Vehicles until penalties are paid, an increase in fines for public safety violations, increased booting, increased ability to get fine payments from rental agencies, and systematic collection of fines for company cars.

In FY91 parking fine receipts will simultaneously reflect both the greatest increase since enforcement authority was transferred to the City, and the greatest shortfall when measured against the tax rate projection. This reflects the fact that the increase in nearly all the fine amounts has essentially accomplished its purpose: people are now apparently making a greater effort to comply with parking regulations. The strongest evidence for this to date has been an over 30 percent increase in parking meter revenue through the end of March, a direct result of increased compliance.

When the City proposed the fine increases last year, it was already in the process of strengthening overall enforcement through increased ticketing on Saturdays in selected areas, expansion of the residential parking program, and the enhancement through enforcement of street-cleaning routes. While all these programs are in place, they have not resulted in a large net increase in ticketing, largely because the enforcement has been successfully supported by the fine increases. The City has strengthened enforcement without significantly increasing ticketing. Thus, the component of the FY91 parking fine projection which assumed growth based upon increased fines has materialized, while the component of the projection based upon increased ticketing has not. The City is projecting in the FY92 budget \$55 million in parking fines, which represents a moderate increase over the likely amount to be received for FY91. This increase will be due almost entirely to the fact that, unlike FY91, very few tickets will be paid at the lesser fine amounts which were in place through June 30, 1990.

Investment Income. The City realized dramatic improvement in the area of investment income from FY83 through FY86, paralleling the general overall improvement in the City's finances. In general, the City's level of investment earnings is a function of the prevailing interest rates and daily cash balances. Between FY87 and FY90 investment income averaged about \$20 million per year in spite of a drop off in FY90. The year-to-date amount through February indicates that the City is unlikely to meet its forecast of \$17.8 million for FY91, due in part to a dramatic decline in interest rates as the Federal Reserve Board has attempted to head off or limit an economic recession. In addition, the City has chosen to partially offset specific revenue decreases, local aid chief among them, by drawing down on available reserves. This has impacted the City's average daily cash balance and lowered the amount available for investment. In the FY92 budget \$15.5 million is projected for interest income. One factor which might improve the City's average daily cash balances is the reinstitution of quarterly distribution of local aid which has the governor has commented on favorably in discussions with municipal officials. The City's investment income level peaked in FY88 and FY89, the two years in which the state did quarterly distributions of local aid.

Payments-in-lieu-of-taxes. There has been a gradual increase in receipts for payments-in-lieu-of-taxes over the last several years. Over 70 percent of this revenue comes from MassPort and the voluntary Section 6 payments from Chapter 121A urban redevelopment corporations. Because both MassPort and Section 6 payments are based on formulas which tie the payment to some measure of economic growth, these payments have experienced significant growth from year to year in the past. In addition, in recent years many non-profit entities have entered into new payments-in-lieu-of-taxes agreements with the City. These include some of the major universities and hospitals located in Boston. In FY90, payments-in-lieu-of-taxes jumped by over 15 percent with Chapter 121A, section 6 payments leading the way. Currently, the City expects to sustain this increase in



FY91 and to experience a marginal decrease in FY92.

Building Permits. The City experienced a substantial upswing in building permit revenue between FY82 and FY86. This upswing was related to a dramatic increase in the level of development which took place in Boston over that period. In addition, improvements in Inspectional Services Department administrative and monitoring procedures have provided more vigilant oversight and more accurate estimates of building project costs.

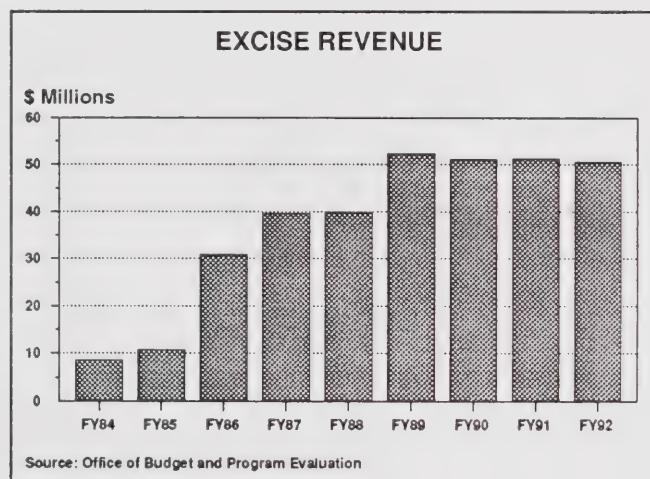
Projections of building permit revenue are difficult, since the unpredictable timing of large scale projects can result in dramatic swings upward or downward. Between FY86 and FY88, revenue from building permits continued to grow modestly. Subsequently, the City has experienced a dramatic reversal of fortunes in this area: building permit revenue plummeted from \$14.4 million in FY88 to \$11.4 in FY89 to \$8.1 million in FY90. This downward slide is not too surprising given the downswing in new development and renovation activity. For FY91, building permit revenues are expected to meet the \$8.4 million projection. If this proves to be the case, the City may have hit the low point in the economic cycle for this revenue source and any significant pickup during FY92 would enable the City to exceed its \$8.0 million projection.

## EXCISE TAXES

Motor Vehicle Excise. The motor vehicle excise tax underwent mandated Proposition 2 1/2 cutbacks similar to those in the property tax levy, resulting in a reduction in excise revenues of nearly 60 percent between FY80 and FY82. Beginning in FY83, motor vehicle excise has exhibited steady growth and was the City's fastest growing recurring revenue source between FY84 and FY86. Part of the growth was due to an improved collection effort by the City for prior years' bills. Furthermore, during the mid-eighties the dramatic annual growth in Massachusetts in personal income increased the purchasing power of local consumers. The fall of 1986 was a particularly intensive period of high volume new car purchases due to the combination

of low financing and the motivation to buy before federal tax reform changed the rules on interest deductions.

These spurts have been reflected in the Motor Vehicle Excise receipts in a somewhat delayed fashion due partly to administrative problems at the state Department of Motor Vehicles, where all motor vehicle excise liabilities are determined. Thus FY88 receipts actually decreased, but in FY89 the receipts leaped forward, reflecting some significant catchup from the previous year's billings. The FY90 projection which was based on the underlying real growth trends that discounted the exceptional FY89 spurt proved to be accurate. FY91 and FY92 projections assume a leveling off



of receipts based upon a sluggish market in new car sales throughout Massachusetts. Receipts through the end of March indicate that the FY91 projection is on the mark.

Room-Occupancy Excise. In 1985, state legislation was enacted authorizing two local option excise taxes on room-occupancy rates and jet fuel. These taxes were the first new revenue sources available to the City since the motor vehicle excise was enacted in 1928. The Commonwealth collects these taxes and distributes them to the City. In their start-up years (initiated in FY86; first complete year of collection in FY87), the jet-fuel and room-occupancy excises provided needed revenue growth to the City. (See Excise Revenue.)



The room-occupancy excise amounts to 4 percent of the total amount of rent for each occupancy (in addition to the existing state-wide 5.7 percent excise). Room-occupancy excise receipts increased in FY88 and FY89 by 16.8 percent and 11.8 percent, respectively. More recently, growth has slowed as Boston's occupancy rate has decreased slightly, and room rates have leveled off. These rates are partly dependent on tourism which has been lagging in the Boston area as consumers nationwide have become more cautious with their discretionary spending. Another driving element in room and occupancy rates is spending by businesses on travel. As a more discretionary spending item, business travel inevitably slows down in a recession. As a result the City has projected only a 1 percent increase in FY91, and a 3 percent increase in FY92.

Jet-Fuel Excise. In addition to the room-occupancy excise, the legislature in 1985 enacted a local option excise on the sale or use of jet-fuel at a rate of 5 percent of the average sales price, but not less than 5 cents per gallon. The City actually collected the greatest amount for this new excise in its first full year, FY87. The City currently expects to receive approximately that same amount in both FY91 and FY92. One reason that the jet-fuel excise has remained relatively flat year to year is that the 5 cents per gallon has generally been the operative rate, since the price per gallon has generally remained under one dollar. In other words, jet-fuel inflation has no impact on excise collections so long as the price has remained under one dollar.

Another major factor which limits jet-fuel excise growth is the increased fuel efficiency of commercial aircraft which use the airport. Because fuel is such a major portion of their expenditures, airlines are strongly motivated to increase the fuel efficiency of their fleet. For example, the percentage of scheduled Logan passenger operations in "stage-3" aircraft increased from 23 percent to 41 percent between 1984 and 1988. This has had a significant impact upon the demand for fuel at the airport because the amount of fuel needed for the same unit of elapsed time between takeoff and landing is an estimated 36 percent less in a stage-3 aircraft as

compared to its predecessor stage-2 model. (This variance uses as the example for stage-2 aircraft, the Boeing 727-200, and for stage-3, the Boeing 737-300.)

Real Estate Transfer Excise. The City had been receiving a real estate excise tax (commonly referred to as the condo excise) since FY83. Until FY90, these receipts were earmarked for the payment of the Funding Loan Act of 1982 bonds (commonly referred to as the Tregor bonds). During the peak of Boston's hot real estate market in the mid-1980's, over \$2 million per year was realized via the real estate transfer tax. This was one reason Boston was able to retire the Tregor bonds early. Since the City completed payment on the bonds in FY90, the condo excise receipts have been deposited in the General Fund, but there have been diminishing returns. In FY92, the City only expects to receive \$250,000. This is due to the fact that a significant portion of units in the City have already been converted to condominiums, and that conversions slow down in a sluggish real estate market.

## **BUDGETARY FUND BALANCE**

The City has accelerated its use of its budgetary fund balance during the last two fiscal years as the Commonwealth has dramatically cut back on local aid to cities and towns. Also referred to as "free cash," this item is most simply described as the portion of the available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending. The law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Mass. General Law, and is administered by the Massachusetts Department of Revenue's Bureau of Accounts.

The City had an operating deficit for ten straight years between FY76 and FY85. In all of those years the City also had a negative free cash balance. In addition, the City had a negative free cash balance for several years preceding FY76. Beginning with FY86, the June 30th free cash balance has been positive for five straight years,



thereby freeing up funds for appropriation in the subsequent year budgets.

State law permits two ways of certifying free cash. The first method is to add accumulated surpluses and subtract accounts receivable as of the last day of the fiscal year. Any resulting positive balance is generally available for appropriation during the subsequent fiscal year. The second method is to update the City's property tax receivables during the course of the year (up through March 31st). Outstanding prior year property tax billings collected during the current year are netted into an adjusted free cash balance, which if positive, is available for appropriation until June 30th.

To date, the City has appropriated from budgetary fund balance \$4.0 million in FY87, \$13.4 million in FY88, \$15.0 million in FY89, \$20 million in FY90 and \$38.6 million in FY91 (included in this amount are three pending appropriation orders totalling \$9.6 million filed with City Council). Several factors have supported these appropriations of budgetary fund balance: 1) Fund equity has built up steadily over a long period of time, turning positive in FY83 and increasing every year since; 2) A very high rate of collection on current year property taxes has been achieved and subsequently maintained over several years; 3) Boston has exceeded its revenue estimates since FY85; 4) Personnel spending continues to be successfully controlled through a quarterly allotment system mandated by Mass. General Law; and 5) In the past two years, the City has reduced spending and personnel in many areas to adjust for significant cuts in local aid. Similar plans are contained in the FY92 budget.

The Administration does not anticipate having available for appropriation a similar level of free cash in FY92. The first component of the FY92 free cash appropriation amounting to \$10.9 million — the March 31st free cash update based upon collection of prior year property tax and tax title receivables — represents a 36 percent decrease compared to the prior year's update. The decrease was not affected by the level of cash received for property tax and tax title receivables which was comparable to the previous year. Instead the

decrease was directly due to a greater amount of properties being reclassified into tax title without a concomitant increase in receipts for tax title properties. Meanwhile, the more fundamental measure of a City's property tax collection rate, collection on current year bills, has remained healthy. However, because property tax collections generally impact the free cash calculation and the City's fund balance, the Administration continues to monitor the collection rates closely.

During the two-year period spanning the FY91 and FY92 budgets, the City has available a total of \$49.5 million in budgetary fund balance. This amount is derived as follows: 1) \$19.9 million remaining from the June 30, 1989 free cash certification appropriated on June 27, 1990 for FY91 budget; 2) \$9.1 million from the June 30, 1990 free cash certification appropriated for the FY91 budget to offset the local aid reductions exacted by the legislature in August, 1990; 3) \$4.0 million from the June 30, 1990 free cash certification filed in an FY91 supplemental appropriation order for the School Department in March, 1991; 4) \$1.3 million from the June 30, 1990 free cash certification filed in a FY91 supplemental appropriation for the Penal Department in April, 1991; 5) \$4.3 million from the June 30, 1990 free cash certification, filed in an FY91 appropriation order to offset a local receipts shortfall in April, 1991; and 6) \$10.9 million to be appropriated for the FY92 budget from an updated June 30, 1990 free cash certification which takes into account additional prior year property tax receipts collected between July 1, 1990, and March 31, 1991.

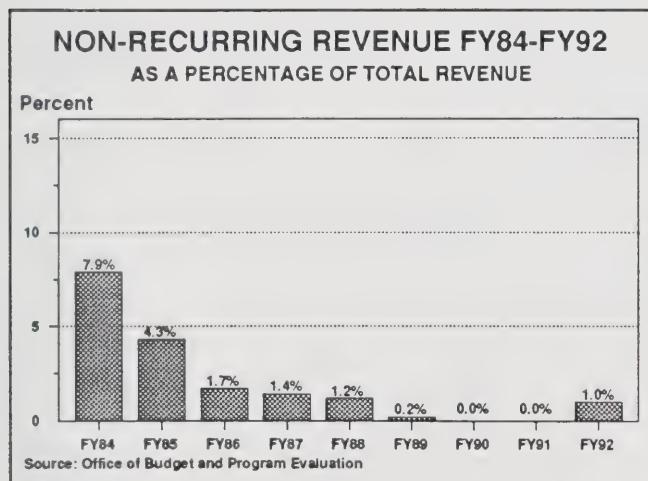
In essence, updating property tax receivables during the course of the year provides for the early recognition of the future free cash outlook. The 36 percent decline in this year's update indicates that the City is less likely to have a large amount of free cash available for the next few years' budgets.

## **NON-RECURRING REVENUE**

Over the course of five budgets (FY84 - FY88), the current Administration used non-recurring revenues to offset both the City's final cut to the property tax levy under Proposition 2 1/2, and to



relieve the City from an eight year long string of operating deficits. During that period, the five year combined total of prior year deficits (both operating and overlay), plus the FY84 levy reduction, equalled approximately \$185 million. During that same five year cycle, the City supported its budgets with \$166 million in non-recurring revenues. The four largest categories of non-recurring revenues were: 1) \$40.8 million in FY86-FY88 from excess pension fund interest, a transfer allowed by a state law which fully phased out such use of excess interest from FY89 onward; 2) the sale of garages, which produced \$40.7 million in FY84/FY85;



3) \$34.1 million in disproportionate assessment funds in FY84; and 4) \$19.6 million in excess reserves for abatements in FY84. These four items constitute over four-fifths of the FY84-FY88 non-recurring total. The FY92 budget is the first time since then that the City is planning once again to use non-recurring revenue as an element of support for the operating budget.

The City's FY92 revenue situation deserves some comparison with FY84 when the City used its greatest amount of non-recurring revenue. Currently, the City expects a decline in recurring revenue in FY92 of \$46.7 million. In FY84 recurring revenues increased by slightly less than \$1

million. In FY92, the increase in the property tax levy is expected to exceed the reduction in local aid inclusive of teachers pension reimbursements. In FY84, the increased local aid fell short by several million of offsetting the last major Proposition 2 1/2 levy reduction. In short, one needs to look beyond the local aid reduction to understand the City's FY92 revenue situation. The local aid reductions have come at a point in time when the regional economy is weakest, and over time, the City's revenue base has become more sensitive to the economy. Thus there are many local sources of revenue which are expected to decrease in FY92. Furthermore, the City offset an even larger local aid cut in FY91 with an assortment of available funds, assuming equitable local aid distributions would resume in FY92. It does not have a similar level of reserves available in FY92.

In FY84, the City leaned heavily on non-recurring revenue and by this means increased its total revenue by year-end from \$844 million to \$918 million, in order to support major increases in costs for, among other things, pensions and prior year deficits, and in an attempt to reduce the deficit. Even with the use of \$74 million in non-recurring revenue in FY84, the City actually carried a larger deficit into the next year.

The FY92 budget includes \$13 million in anticipated receipts for the sale of property and development right-of-ways. The City is still in the process of finalizing these sales. As a matter of prudent fiscal policy, it is the Administration's proposal to spread the incorporation of the sale proceeds into general fund revenue over several years in order to minimize any resulting structural gap between the City's recurring revenues and expenditures. It is believed that this limited form of non-recurring revenue, along with stringent spending reductions, will be sufficient to keep the City's budget in balance.



ACCT.#	ACCOUNT NAME	FY 1990 ACTUALS	FY 1991 BUDGET	FY 1992 BUDGET
	<b>PROPERTY TAX</b>			
	REAL & PERSONAL PROPERTY TAX	520,876,228	555,069,213	580,472,393
	OVERLAY RESERVE	(25,956,326)	(26,431,867)	(27,642,095)
	SUBTOTAL	494,919,902	528,637,346	552,830,298
	<b>EXCISES</b>			
011-0129	MOTOR VEHICLE EXCISE	19,961,361	20,300,000	19,500,000
011-0130	HOTEL/MOTEL EXCISE	13,906,576	14,000,000	14,400,000
011-0140	JET FUEL EXCISE	13,177,147	13,400,000	13,400,000
	CONDO EXCISE	593,500	600,000	250,000
	BOAT EXCISE	15,849	15,000	20,000
	SUBTOTAL	47,654,433	48,315,000	47,570,000
	<b>CHAPTER 121A</b>			
011-0167	URBAN REDEV. - CHAP 121A - SEC. 6	9,401,134	9,400,000	8,000,000
011-1013	URBAN REDEV. - CHAP 121A - SEC. 10	32,974,783	30,252,445	32,000,000
	SUBTOTAL	42,375,917	39,652,445	40,000,000
	<b>FINES</b>			
011-0501	PARKING FINES	41,216,393	57,556,318	55,000,000
011-5104	DISTRICT COURT FINES	2,585,956	2,577,500	2,425,000
	CODE ENFORCEMENT	273,514	275,000	250,000
	SUBTOTAL	44,075,863	60,408,818	57,675,000
	<b>LICENSES &amp; PERMITS</b>			
011-0211	BUILDING STRUCTURES & PERMITS	8,119,487	8,400,000	8,075,000
011-0215	STREET & CURB PERMITS	1,017,016	1,400,000	1,100,000
011-0221	HEALTH INSPECTIONS	528,089	650,000	650,000
011-0222	ALCOHOLIC BEVERAGES LICENSES	2,171,284	2,200,000	2,180,000
011-0224	ENTERTAINMENT LICENSES	371,646	375,000	400,000
011-0225	POLICE & PROTECTIVE LIC & PRMT	327,864	360,000	350,000
011-0229	OTHER BUSINESS LIC & PERMITS	709,780	700,000	700,000
011-0235	CABLE TELEVISION	598,327	650,000	675,000
	OTHER LICENSES AND PERMITS	231,705	330,000	265,000
	SUBTOTAL	14,075,198	15,065,000	14,395,000
	<b>INTEREST INCOME</b>			
011-7151	INTEREST ON INVESTMENTS	16,917,982	17,800,000	15,500,000
	<b>PAYMENTS-IN-LIEU-OF-TAXES</b>			
011-0169	MASSPORT-IN LIEU	6,017,739	6,100,000	6,150,000
	OTHER - IN LIEU	5,162,940	5,533,925	5,139,485
	SUBTOTAL	11,180,679	11,633,925	11,289,485



ACCT.#	ACCOUNT NAME	FY 1990 ACTUALS	FY 1991 BUDGET	FY 1992 BUDGET
<b>MISCELLANEOUS DEPT. INCOME</b>				
011-3105	VITAL STATISTICS	745,199	900,000	840,000
011-3109	LIENS	324,115	570,000	450,000
011-3120	CITY CLERK-FEES	222,865	280,000	265,000
011-3202	POLICE SERVICES	434,056	400,000	400,000
011-3211	FIRE SERVICES	1,207,968	1,600,000	1,400,000
011-3301	PARKING FACILITIES	3,495,589	2,800,000	2,800,000
011-3311	STREET, SIDEWALK & CURB REPAIR	8,349,615	8,300,000	2,800,000
011-4002	TUITION & TRANSPORT-SCHOOLS	661,130	600,000	550,000
011-7117	WORKERS COMP. REIMBURSEMENT	750,949	1,550,000	900,000
011-7119	SETTLEMENTS	7,678,885	1,300,000	400,000
011-7131	PENSIONS & ANNUITIES	2,020,980	2,200,000	2,000,000
011-7132	FRINGE BENEFITS & INDIRECT	265,210	400,000	400,000
011-7155	PRIOR YEARS REIMBURSEMENTS	14,311,849	3,400,000	2,000,000
011-8000	PRIVATE DETAILS - 10% ADMIN	1,187,908	1,600,000	1,600,000
	OTHER MISCELLANEOUS DEPT. INCOME	4,989,781	1,723,950	2,010,350
	<b>SUBTOTAL</b>	<b>46,646,099</b>	<b>27,623,950</b>	<b>18,815,350</b>
<b>PENALTIES &amp; INTEREST</b>				
011-0133	PENALTIES & INT. PROP TAX	1,544,374	1,600,000	1,200,000
011-0134	PENALTIES & INT. M/V TAXES	715,614	750,000	650,000
011-0136	PENALTIES & INT. TAX TITLES	3,524,012	3,550,000	2,650,000
	OTHER PENALTIES & INT.	22	0	0
	<b>SUBTOTAL</b>	<b>5,784,022</b>	<b>5,900,000</b>	<b>4,500,000</b>
<b>COUNTY</b>				
011-5106	REGISTRY OF DEED FEES	1,835,900	1,850,000	1,500,000
011-5111	NEW COURT HOUSE	0	0	800,000
011-5112	COUNTY DEEDS EXCISE	479,329	0	0
	OTHER COUNTY REVENUE	93,123	70,000	70,000
	<b>SUBTOTAL</b>	<b>2,408,352</b>	<b>1,920,000</b>	<b>2,370,000</b>
011-2503	PARKING METERS	8,700,000	6,800,000	8,000,000
011-2502	CEMETERY TRUSTEE	1,470,000	1,000,000	1,300,000
<b>HEALTH &amp; HOSPITALS</b>				
011-3401	CITY HOSPITAL	140,516,196	144,100,000	150,075,000
011-3411	LONG ISLAND	8,430,181	16,000,000	5,000,000
011-3421	MATTAPAN	9,067,839	12,000,000	13,000,000
	<b>SUBTOTAL</b>	<b>158,014,217</b>	<b>172,100,000</b>	<b>168,075,000</b>



ACCT.#	ACCOUNT NAME	FY 1990 ACTUALS	FY 1991 BUDGET	FY 1992 BUDGET
<b>STATE DISTRIBUTIONS</b>				
011-1111	R.E. ABATEMENTS, & ELDERLY EXEMPTIONS	1,701,043	1,700,990	1,700,990
011-1112	STATE LOTTERY LOCAL AID	25,324,887	25,328,750	32,270,038
011-1114	HIGHWAYS - LOCAL AID	459,168	0	1,516,244
011-1114	VETERANS SERVICES - LOCAL AID	1,310,582	1,048,184	1,032,223
	RESOLUTION AID	351,998,060	318,288,956	281,608,294
011-1117	PUBLIC LIBRARY - LOCAL AID	522,501	0	0
011-4103	LIBRARY OF LAST RECOURSE	1,644,102	0	0
011-1119	RACING TAXES	429,192	0	0
011-1301	SCHOOL CONSTRUCTION - STATE	13,372,228	11,634,662	13,632,691
011-1311	TRANSPORTATION OF PUPILS	9,860,806	10,815,303	10,815,303
011-1316	TUITION FOR STATE WARDS	763,629	566,753	0
011-1308	RECREATIONAL PROGRAMS	43,355	31,104	31,104
	SUBTOTAL	407,429,554	369,414,702	342,606,887
011-1115	REIMBURSEMENT - TEACHERS' PENSIONS	22,955,125	23,700,000	26,000,000
011-2504	BUDGETARY FUND BALANCE	20,023,000	38,568,934	10,906,620
011-2500	SALE OF PROPERTY	0	0	13,000,000
	<b>GRAND TOTAL</b>	<b>1,344,630,342</b>	<b>1,368,540,120</b>	<b>1,334,833,640</b>







# **SUMMARY BUDGET: FISCAL YEAR 1992**

## **OVERVIEW**

It is expected that FY92 will be the sixth year in a row that the budget will not be burdened with a prior year operating deficit. The City will enter FY92 having met future requirements for a reserve of 2.5 percent of prior year departmental appropriations. However, due to significant local aid reductions, the City finds it necessary for the first time since FY88 to plan for the use of a small amount of non-recurring revenue as a supporting element of the operating budget.

## **REVENUES**

FY92 will be the first year since FY82 that revenues are expected to decrease from the prior year. Total revenues are projected to increase by only 1.8 percent in FY91 and decrease by 2.5 percent in FY92. Over that two year period state cherry sheet distributions are projected to have decreased by \$64.8 million or approximately 16 percent. In addition to reductions, the state has temporarily abandoned its traditional March 1 approval of cherry sheet distributions during the last three years. Consequently local aid has switched from being one of the more stable and dependable elements in the budget process to being the most uncertain. During FY90, for example, after the completion of the budget process, the governor administratively withheld \$210 million in local aid statewide and local tax rates had to be balanced with this major downward adjustment; then, in the fourth quarter of the fiscal year, the Supreme Judicial Court invalidated the withholding.

The property tax levy is currently projected at a 4.6 percent increase over FY91. Total excise revenues are projected to remain level in FY92. Health and Hospitals revenue is projected to increase by 8.9 percent in FY91 and decrease by 2.3 percent in

FY92, with the actual timing of reimbursements accounting for much of the difference. Departmental income is projected to decrease by 1.9 percent in FY91, followed by a 10.1 percent decrease in FY92. A detailed explanation of the FY92 decrease can be found in the Revenue section of this volume.

In the past few years budgetary fund balance has played an increasing role as the City has drawn upon its reserves to offset dramatic local aid reductions. In FY91, budgetary fund balance contributed \$18.6 million more than in FY90. The City does not expect to be able to appropriate an equivalent amount during the course of FY92.

## **EXPENDITURES**

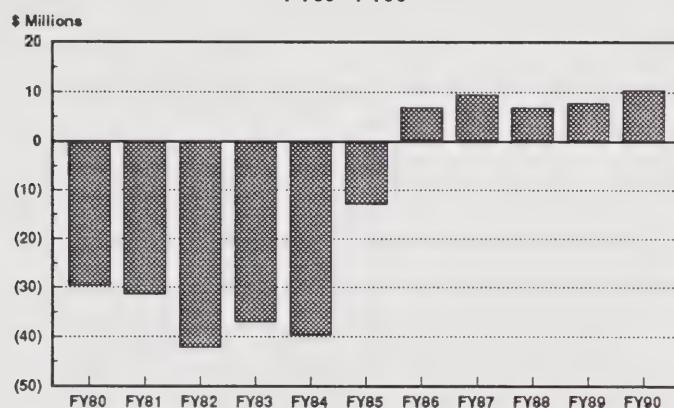
On the expenditure side, the City plans to spend 2.5 percent less than in FY92, following a 2.6 percent increase in FY91. Because fixed costs are expected to increase by \$14.7 million, departmental expenditures will be reduced by 4.3 percent in order to maintain a balanced budget. In FY92 the City enters the third year of its forty year full funding schedule mandated under the 1987 Pension Reform Act which the City adopted in 1988. Debt service will grow by 4 percent in FY91 and 5.4 percent in FY92 as the City borrows sufficient funds to keep on schedule with its five year capital plan. Excepting the occurrence of currently unforeseen events, the City expects that no prior year deficit, operating or overlay, will need to be funded out of the FY92 budget.

In response to projections of reduced revenues, as well as the City's policy of maintaining vital public safety and public health services to the greatest extent possible, many departments will be experiencing major reductions in spending and personnel. In FY92, planned expenditures in Health and Hospi-



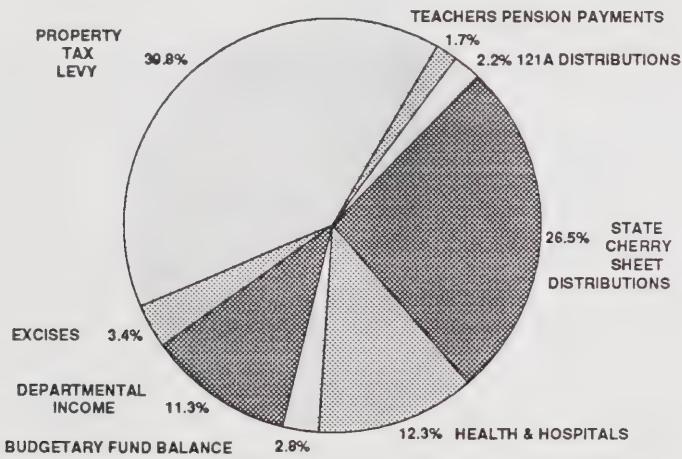
## SURPLUSES AND DEFICITS

FY80 - FY90

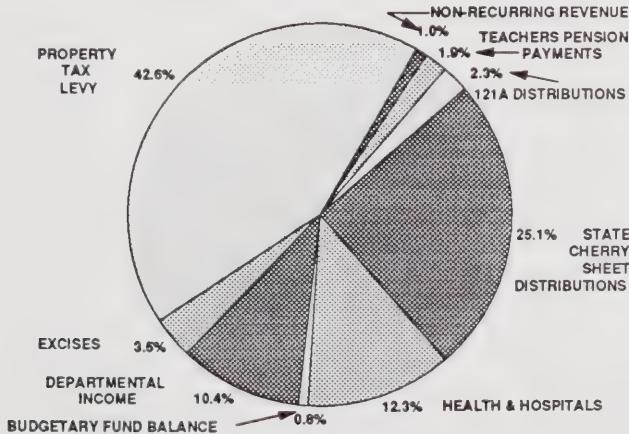


Source: City of Boston Auditing Department

## ESTIMATED REVENUE FY91



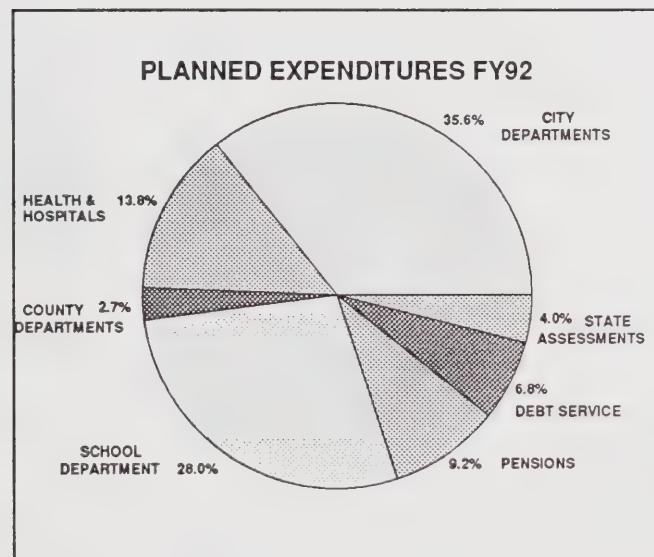
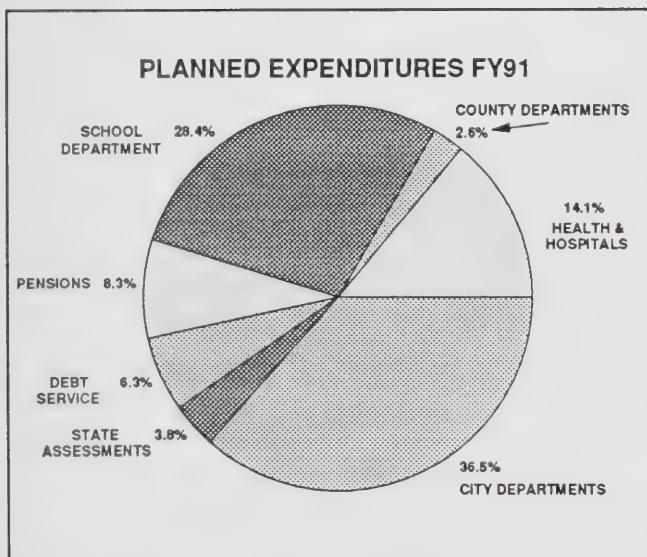
## ESTIMATED REVENUE FY92





tals decrease by 4.9 percent, and in the School Department by 3.9 percent. The 4.8 percent decrease in City department appropriations incorporates the continued funding for critical services with far deeper reductions in administrative depart-

ments. County departments' appropriations are essentially level funded, after a 23.8 percent increase in FY91. In both years additional funding was required for the opening of two new jails.



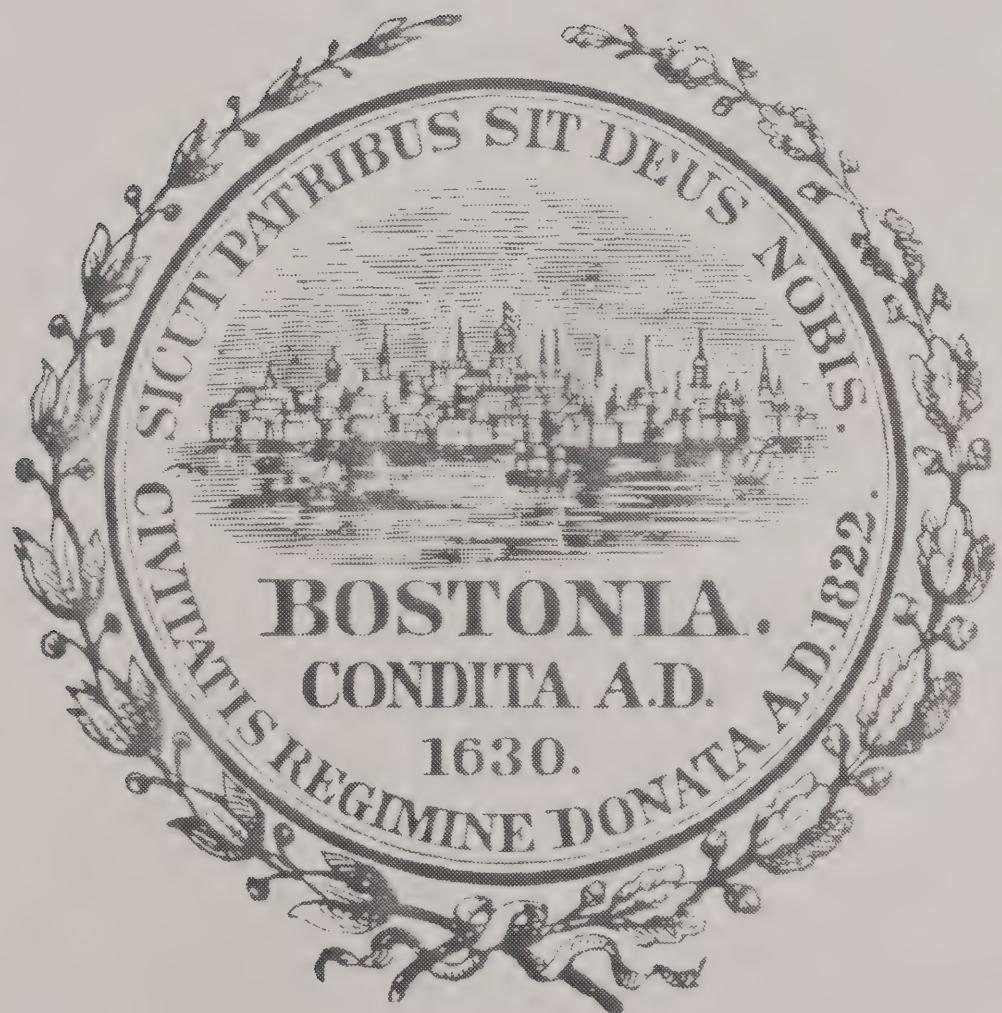


## CITY OF BOSTON BUDGET SUMMARY

Dollars in Millions

REVENUES	FY87 ACTUAL	FY88 ACTUAL	FY89 ACTUAL	FY90 ACTUAL	FY91 BUDGET	FY92 BUDGET
PROPERTY TAX LEVY	422.5	452.4	484.3	520.9	555.07	580.47
OVERLAY RESERVE	(30.9)	(26.9)	(24.3)	(26.0)	(26.43)	(27.64)
MOTOR VEHICLE EXCISE	15.9	15.4	25.8	20.0	20.32	19.52
ROOM OCCUPANCY EXCISE	10.4	12.1	13.6	13.9	14.00	14.40
JET FUEL EXCISE	13.3	12.4	13.0	13.2	13.40	13.40
DEPARTMENTAL INCOME	132.3	142.7	144.8	161.3	158.15	142.09
HEALTH AND HOSPITALS	142.7	147.3	154.7	158.0	172.10	168.08
STATE CHERRY SHEET DISTRIBUTIONS	360.2	384.4	408.1	407.4	369.41	342.61
121A DISTRIBUTIONS	29.6	32.3	32.5	33.0	30.25	32.00
TEACHERS PENSION PAYMENTS	21.7	22.3	22.2	23.0	23.70	26.00
REVENUE SHARING	8.6	0.6	0.0	0.0	0.00	0.00
BUDGETARY FUND BALANCE	4.0	13.4	15.0	20.0	38.57	10.91
<b>TOTAL RECURRING REVENUE</b>	<b>1,130.2</b>	<b>1,208.6</b>	<b>1,289.8</b>	<b>1,344.6</b>	<b>1,368.54</b>	<b>1,321.83</b>
<b>NON-RECURRING REVENUE</b>	<b>15.9</b>	<b>14.7</b>	<b>2.0</b>	<b>0.0</b>	<b>0.00</b>	<b>13.00</b>
<b>TOTAL REVENUES</b>	<b>1,146.2</b>	<b>1,223.3</b>	<b>1,291.8</b>	<b>1,344.6</b>	<b>1,368.54</b>	<b>1,334.83</b>
<b>EXPENDITURES</b>						
CITY DEPARTMENTS	394.0	436.4	467.7	495.3	499.05	475.26
HEALTH & HOSPITALS	140.8	157.2	179.4	186.8	193.58	184.08
COUNTY DEPARTMENTS	25.1	28.3	26.1	29.0	35.89	35.73
SCHOOL DEPARTMENT	290.0	318.6	355.4	374.4	389.00	374.00
<b>TOTAL APPROPRIATIONS</b>	<b>849.9</b>	<b>940.5</b>	<b>1,028.7</b>	<b>1,085.6</b>	<b>1,117.52</b>	<b>1,069.07</b>
PENSIONS	131.8	130.5	120.5	114.2	113.08	122.22
DEBT SERVICE	86.3	83.6	78.3	82.6	85.87	90.48
STATE ASSESSMENTS	45.2	46.3	48.3	50.3	51.77	53.07
RESERVE	8.5	4.5	3.9	0.7	0.30	0.00
<b>TOTAL FIXED COSTS</b>	<b>271.8</b>	<b>264.9</b>	<b>251.1</b>	<b>247.8</b>	<b>251.02</b>	<b>265.76</b>
<b>TOTAL RECURRING EXPENDITURES</b>	<b>1,121.7</b>	<b>1,205.4</b>	<b>1,279.7</b>	<b>1,333.3</b>	<b>1,368.54</b>	<b>1,334.83</b>
OPERATING DEFICIT - PRIOR YEAR	0.0	0.0	0.0	0.0	0.00	0.00
OVERLAY DEFICIT - PRIOR YEAR	15.1	11.1	4.2	1.0	0.00	0.00
<b>PRIOR YEAR DEFICIT</b>	<b>15.1</b>	<b>11.1</b>	<b>4.2</b>	<b>1.0</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL EXPENDITURES</b>	<b>1,136.8</b>	<b>1,216.5</b>	<b>1,284.0</b>	<b>1,334.3</b>	<b>1,368.54</b>	<b>1,334.83</b>
<b>SURPLUS (DEFICIT)</b>	<b>9.4</b>	<b>6.8</b>	<b>7.8</b>	<b>10.3</b>	<b>0.00</b>	<b>0.00</b>







**CITY OF BOSTON  
IN CITY COUNCIL**

**APPROPRIATION AND TAX ORDER FOR THE FISCAL YEAR  
COMMENCING JULY 1, 1991 AND ENDING JUNE 30, 1992**

**ORDERED:**

I. That to meet the current expenses of the City of Boston and the County of Suffolk, in the fiscal year commencing July 1, 1991 and ending June 30, 1992, the respective sums of money specified in the schedules hereinafter set out, be, and the same hereby are, appropriated for expenditure under the direction of the respective boards and officers severally specified, for the several specific purposes hereinafter designated and, except for transfers lawfully made, for such purposes only — said appropriations, to the extent they are for the maintenance and operation of parking meters, and the regulation of parking and other activities incident thereto (which is hereby determined to be \$8,000,000, being made out of the income from parking meters and, to the extent they are for other purposes, being made out of the proceeds from the sale of tax title possessions and receipts from tax title redemptions, in addition to the total real and personal property taxes of prior years collected from July 1, 1990 up to and including March 31, 1991, as certified by the City Auditor under Section 23 of Chapter 59 of the General Laws, and out of available funds on hand (which is hereby determined to be **TEN MILLION NINE HUNDRED SIX THOUSAND SIX HUNDRED TWENTY DOLLARS (\$10,906,620)** as certified by the Director of Accounts under said Section 23, and the balance of said appropriations to be raised by taxation pursuant to said Section 23:—



## CITY DEPARTMENTS

ACCOUNT	DEPARTMENT	PERSONAL SERVICES		CONTRACTUAL SERVICES		SUPPLIES AND MATERIALS		CURRENT CHARGES AND OBLIGATIONS		EQUIPMENT		SPECIAL APPROPRIATION		STRUCTURES AND IMPROVEMENTS		LAND AND NON STRUCT IMPROV TO LAND		TOTAL	
		PERSONAL SERVICES	CONTRACTUAL SERVICES	SUPPLIES AND MATERIALS	EQUIPMENT	SPECIAL APPROPRIATION	STRUCTURES AND IMPROVEMENTS	LAND AND NON STRUCT IMPROV TO LAND	TOTAL										
011-140-0000	Administrative Services Department	9,443,880	1,189,650	260,150	63,047,336	69,850	110,000										74,120,866		
011-136-0136	Assessing Department	3,994,000	427,400	64,500	407,100	7,000											4,900,000		
011-131-0131	Auditing Department	1,294,525	73,300	11,200	6,700	1,275											1,387,000		
011-400-0400	Boards and Commissions	697,144	64,873	15,650	7,800	2,000											787,467		
011-415-0415	Business and Cultural Development, Office of	265,334	209,100	6,000	3,600												723,034		
011-416-0416	Capital Planning, Office of City Clerk Department	269,935	12,345	4,000	1,255	265											287,800		
011-161-0161	City Council	461,710	57,510	17,555		2,225											539,000		
011-112-0112	Consumer Affairs and Licensing, Office of	2,153,820	155,880	61,300	32,800	2,300											2,406,100		
-11-114-0114	Elderly, Commission on Affairs of Election Department	211,075	10,430	7,300													228,805		
011-387-0387	Execution of Courts	1,580,356	175,005	91,000	55,585												1,901,946		
011-121-0000	Fair Housing Commission	1,791,003	247,267	57,700	26,180	2,850											2,125,000		
011-333-0333	Finance Commission	194,289	26,750	7,555	8,324												5,000,000		
011-403-0403	Fire Department	123,458	5,092	550	1,000												236,918		
011-193-0193	Health and Hospitals Dept.	79,057,000	2,208,000	1,830,000	795,000												130,100		
011-221-0221	Inspectional Services Dept.	108,313,340	46,509,340	13,197,190	3,567,730												84,050,000		
011-610-0600	Law Department	7,545,410	597,360	81,300	235,930												184,078,010		
011-261-0260	Library Department	2,083,440	1,034,220	28,700	40,640												8,464,000		
011-151-0151	Licensing Board	12,648,837	2,457,039	2,328,420	355,704												3,187,000		
011-110-0110	Mayor, Office Expenses	247,316	8,684	6,575	3,225	500											17,790,000		
011-252-0252	Medicare Payments	743,459	59,940	10,000	9,000												266,300		
011-111-0111	Neighborhood Services, Office of Parks and Recreation Department	814,890	43,680	17,600	3,330												822,399		
011-139-0139	Pensions and Annuities/City Police Department	6,306,977	1,766,600	322,191	429,032	35,200											1,260,000		
011-412-0412	Policy Office	111,543,873	4,235,232	4,563,254	3,032,228	2,058,413											879,500		
011-300-0301	Press Office	350,346	29,154	6,500	4,000												9,360,000		
011-374-0374	Public Facilities Department	139,000	6,800														8,700,000		
011-211-0211	PFD/Community Schools	5,419,638	1,383,494	241,580	299,588	700											125,433,000		
011-402-0402	Public Works Department	6,099,374	1,596,196	91,000	224,230												390,000		
011-411-0411	Real Property Department	14,340,300	40,357,150	1,083,550	818,000	1,000											145,800		
011-188-0000	Registry Division, City Clerk Department	2,967,418	2,659,982	178,500	9,100	300											7,345,000		
011-311-0311	Rent Equity Board	591,000	19,450	8,600	1,950												8,739,000		
011-180-0000	Retirement Board	779,441	30,387	20,500	520												56,900,000		
011-163-0163	Snow Removal	1,052,645	16,500	2,970	5,000	2,500											5,815,000		
011-384-0384																	621,300		
011-192-0192																	830,848		
011-331-0331																	1,079,615		
																	2,250,000		



## CITY DEPARTMENTS

ACCOUNT	DEPARTMENT	PERSONAL SERVICES	CONTRACTUAL SERVICES	SUPPLIES AND MATERIALS	CURRENT CHARGES AND OBLIGATIONS	EQUIPMENT	SPECIAL APPROPRIATION	STRUCTURES AND IMPROVEMENTS	LAND AND NON STRUCT IMPROV TO LAND	TOTAL
011-251-0250	Transportation Department	13,203,782	8,101,209	1,280,782	942,227	102,000				23,630,000
011-137-0000	Treasury Department	1,748,729	138,664	500,347	27,690	1,650	1,000			2,418,080
011-199-0199	Unemployment Compensation	50,000								50,000
011-740-0000	Veterans Services Department	723,505	122,740	6,600	1,706,255					2,559,100
011-341-0342	Workers Compensation Fund			500,000						1,850,000
011-448-0448	Youth Fund									3,000,000
<b>GRAND TOTAL/CITY</b>		<b>399,250,249</b>	<b>116,536,423</b>	<b>26,410,619</b>	<b>76,108,059</b>	<b>2,657,868</b>	<b>35,324,770</b>	<b>300,000</b>	<b>100,000</b>	<b>656,687,988</b>

## COUNTY DEPARTMENTS

ACCOUNT	DEPARTMENT	PERSONAL SERVICES	CONTRACTUAL SERVICES	SUPPLIES AND MATERIALS	CURRENT CHARGES AND OBLIGATIONS	EQUIPMENT	SPECIAL APPROPRIATION	STRUCTURES AND IMPROVEMENTS	LAND AND NON STRUCT IMPROV TO LAND	TOTAL
001-140-0000	Administrative Services Dept.	222,400			2,000,000					2,222,400
014-139-0139	Medicare Payments									190,000
011-748-0813	Penal Department	10,885,004	3,523,693	1,615,260	121,543	54,500				16,200,000
014-749-1375	Pensions and Annuities - County	1,077,450	79,350	38,200	1,000					700,000
014-745-0165	Registry of Deeds	10,704,631	2,407,445	1,495,670	155,754	61,500				1,196,000
014-747-0811	Suffolk County Jail									14,825,000
011-341-0342	Workers Compensation Fund									400,000
<b>GRAND TOTAL/COUNTY</b>		<b>22,889,485</b>	<b>6,010,488</b>	<b>3,149,130</b>	<b>2,278,297</b>	<b>116,000</b>	<b>1,290,000</b>	<b></b>	<b></b>	<b>35,733,400</b>



FURTHER ORDERED:

II. That to meet so much of the expenses of maintaining, improving and embellishing in the fiscal period commencing July 1, 1991 and ending June 30, 1992, cemeteries owned by the City of Boston, or in its charge, as is not met by the income of deposits for perpetual care on hand December 31, 1990, the respective sum of money specified in the subjoined schedule be, and the same hereby is, appropriated out of the fund set up under Chapter 13 of the Acts of 1961 — the same to be expended under the direction of the Commissioner of Parks and Recreation:—

015-400-3321  
CEMETERY DIVISION  
PARKS AND RECREATION DEPARTMENT

1. Personal Services	\$1,027,919
2. Contractual Services	64,000
3. Supplies and Materials	59,200
4. Current Charges and Obligations	76,000
5. Equipment	15,300
6. Other	57,581
TOTAL	\$1,300,000





CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR  
RAYMOND L. FLYNN

April 10, 1991

TO THE CITY COUNCIL

Dear Councillors:

I transmit herewith an appropriation order in the amount of \$374,000,000 for the Boston School Department for FY92, submitted pursuant to the provisions of Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, as further amended by Chapter 701 of the Acts of 1986 and Chapter 613 of the Acts of 1987.

This requested appropriation when combined with the \$4.5 million in state Equal Education Opportunity Grant moneys and federal Impact Aid funds, will make available to the School Department \$378.5 million for FY92 in direct operating funds. The School Department projects an additional \$54 million will be available in categorical grant funds, for a total operating budget of \$432.5 million, an average of \$7,559 per pupil. In addition, the City's FY92 Capital Budget includes \$165 million for continued improvements to school facilities.

These are difficult fiscal times, brought on by the state and the federal government's disinvestment in cities and towns, and by the impact of an ever-deepening recession. The total City and County Proposed FY92 Operating Budget including the School Department's appropriation filed today with the City Council, has decreased for the first time since the impact of Proposition 2 1/2 was felt in FY82.

Within the decreased revenue available education remains a critical priority. The School Department's appropriation for FY92 is only one tenth of one percent less than actual expenditures in FY90 -- a reduction considerably smaller than that faced by even the Police and Fire Departments. This budget reflects a series of difficult choices forced upon the City in considerable part by the Governor's proposed local aid cuts. If local aid is restored, it is my intention to recommend that a significant and fair portion of any reinstated funds be appropriated to the School Department.

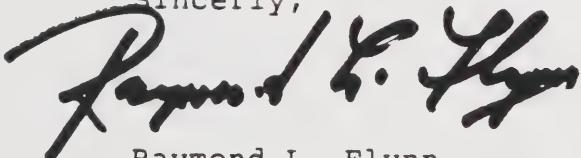


According to Section 2 of Chapter 613 of the Acts of 1987, neither the City Council or I may allocate dollars among accounts within this appropriation. Recognizing the critical financial situation facing the City, I am asking the School Committee to take the difficult but necessary steps to reduce their FY92 proposed \$403 million budget, submitted to me on March 27, 1991 to within this recommended \$374 million appropriation. Failure to make these reductions seriously threatens the City's ability to maintain a balanced budget in FY92.

Because of projected revenue forecasts, I instructed my senior advisers several months ago to review City-wide spending for organizational changes, and streamlining that could reduce costs while maintaining critical services. I have seen that the worst of times very often bring out the very best in a manager's creative abilities to overcome serious obstacles. It is my hope that the School Department will use these troubled financial times to review its budget with an eye toward keeping those programs which succeed, such as those funded under the Alternative Education Initiative, strengthen Regular Education programs, while eliminating other less cost effective activities, such as transportation.

I respectfully ask your support and quick action on this appropriation for the Boston School Department for FY92.

Sincerely,



Raymond L. Flynn  
Mayor of Boston



# CITY OF BOSTON

## IN CITY COUNCIL

WHEREAS, The Alternative Education Initiative (AEI) was established in 1986 through a joint agreement between the City, the Boston School Committee, and the Superintendent to address the rising drop-out problem amongst our City's youth; and

WHEREAS, AEI has proven over the past five years to be an effective and successful means for returning and keeping our youth in school; and

WHEREAS, The drop-out problem continues as a serious threat to the future of today's youth; inclusion of AEI in the School Department's FY92 budget will be a positive and proven measure to prevent the drop-out rate from increasing; and

WHEREAS, The School Committee and the City have made a commitment to improve and adequately maintain school facilities, and the City has included \$165 million for improvements in the City's capital budget; now therefore be it

ORDERED: That pursuant to Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, and as further amended by Chapter 701 of the Acts of 1986 and Chapter 613 of the Acts of 1987, to meet the current operating expenses of the School Department in the fiscal period commencing July 1, 1991 and ending June 30, 1992, the sum of THREE HUNDRED SEVENTY-FOUR MILLION DOLLARS (\$374,000,000) be, and the same hereby is, appropriated, said sum to be raised by taxation pursuant to Section 23 of Chapter 59 of the Generals Laws: -

School Department	\$374,000,000
-------------------	---------------

, HEREBY CERTIFY THAT  
THE FOREGOING, IF PASSED IN  
THE ABOVE FORM, WILL BE IN  
ACCORDANCE WITH LAW.

John J. Mulvey  
CORPORATION COUNSEL DEP



## TWO YEAR COMPARISON OF CITY DEPARTMENTS

DEPARTMENT	FY91 Appropriation	FY92 Recommendation	Variance
Administrative Services Department	68,164,551	74,120,866	5,956,315
Arts & Humanities, Office of	197,338	0	(197,338)
Assessing Department	5,787,161	4,900,000	(887,161)
Auditing Department	1,522,000	1,387,000	(135,000)
Boards and Commissions	0	787,467	787,467
Business and Cultural Development, Office of	1,053,740	723,034	(330,706)
Capital Planning, Office of	411,067	287,800	(123,267)
Cemetery Division, Parks and Rec. Department	1,396,000	1,300,000	(96,000)
City Clerk Department	593,898	539,000	(54,898)
City Council	2,444,350	2,406,100	(38,250)
Consumer Affairs and Licensing	420,124	228,805	(191,319)
Elderly, Commission on the Affairs of	2,194,650	1,901,946	(292,704)
Election Department	2,824,547	2,125,000	(699,547)
Emergency Shelter Commission	230,125	0	(230,125)
Environment Department	594,134	0	(594,134)
Execution of Courts	4,932,000	5,000,000	68,000
Fair Housing Commission	241,057	236,918	(4,139)
Finance Commission	147,450	130,100	(17,350)
Fire Department	86,649,177	84,050,000	(2,599,177)
Health and Hospitals Department	193,578,000	184,078,010	(9,499,990)
Human Rights Commission	229,573	0	(229,573)
Inspectional Services Department	10,553,000	8,464,000	(2,089,000)
Jobs and Community Services, Office of	301,184	0	(301,184)
Law Department	4,200,302	3,187,000	(1,013,302)
Library Department	19,588,910	17,790,000	(1,798,910)
Licensing Board	488,766	266,300	(222,466)
Mayor, Office Expenses	1,013,693	822,399	(191,294)
Medicare Payments	1,260,000	1,260,000	0
Neighborhood Services, Office of	1,233,000	879,500	(353,500)
Parks and Recreation Department	11,686,500	9,360,000	(2,326,500)
Pensions and Annuities - City	9,000,000	8,700,000	(300,000)
Persons with Disabilities, Commission on	194,599	0	(194,599)
Police Department	127,640,000	125,433,000	(2,207,000)
Policy Office	572,200	390,000	(182,200)
Press Office	194,018	145,800	(48,218)
Public Facilities Department	10,194,245	7,345,000	(2,849,245)
PFD/Community Schools	9,386,240	8,739,000	(647,240)
Public Works Department	64,188,000	56,900,000	(7,288,000)
Real Property Department	7,215,642	5,815,000	(1,400,642)
Registry Division, City Clerk Department	670,000	621,300	(48,700)
Rent Equity Board	1,232,185	830,848	(401,337)
Reserve Fund	300,000	0	(300,000)
Retirement Board	1,925,000	1,079,615	(845,385)
Snow Removal	2,250,000	2,250,000	0
Transportation Department	25,000,000	23,630,000	(1,370,000)
Treasury Department	2,644,000	2,418,080	(225,920)
Unemployment Compensation Fund	50,000	50,000	0
Veterans Department	2,577,631	2,559,100	(18,531)
Women's Commission	120,040	0	(120,040)
Workers Compensation Fund	1,680,000	1,850,000	170,000
Youth Fund	535,000	3,000,000	2,465,000
<b>TOTAL CITY DEPARTMENTS</b>	<b>691,505,097</b>	<b>657,987,988</b>	<b>(33,517,109)</b>



## **TWO YEAR COMPARISON OF COUNTY DEPARTMENTS**

<b>DEPARTMENT</b>	<b>FY91 Appropriation</b>	<b>FY92 Recommendation</b>	<b>Variance</b>
Administrative Services Department	1,892,100	2,222,400	330,300
Medicare	190,000	190,000	0
Penal Department	16,200,000	16,200,000	0
Pensions and Annuities - County	750,000	700,000	(50,000)
Registry of Deeds	1,656,200	1,196,000	(460,200)
Suffolk County Jail	14,885,000	14,825,000	(60,000)
Workers Compensation Fund	320,000	400,000	80,000
<b>TOTAL COUNTY DEPARTMENTS</b>	<b>35,893,300</b>	<b>35,733,400</b>	<b>(159,900)</b>







# **BOSTON'S PROGRAM BUDGETING AND PROGRAM EVALUATION SYSTEM**

In late 1985, Mayor Flynn brought together a group of volunteers from the business and academic communities to take an in-depth look at the operation of eighteen key City departments. The group, known as the Mayor's Management Review Committee (MMRC), reviewed goal setting and performance review mechanisms and assessed the performance of these agencies, especially in terms of the delivery of basic City services. The MMRC produced a report containing almost 150 recommendations, detailing specific improvements that would help to make City services more efficient and effective.

One series of recommendations dealt with the need to establish goals for City departments, define those goals in terms of meaningful program objectives and criteria, and monitor department performance in order to develop a clear link between dollars spent and program performance. The MMRC report also recommended creation of a Mayor's Policy Office. As set forth in the recommendation, the Policy Director would be responsible for developing department goals and priorities with each agency prior to the development of the agency's next fiscal year budget.

The Mayor reviewed and accepted these recommendations, and in 1986 created both the Mayor's Policy Office and the Office of Budget and Program Evaluation (OBPE). These new offices were charged with the responsibility of further refining and implementing the recommendations contained in the MMRC report with respect to goal setting, budgeting, and evaluating program performance.

## **OFFICE OF BUDGET AND PROGRAM EVALUATION: MISSION AND GOALS**

The Office of Budget and Program Evaluation, created by merging the former Administrative and Budget Divisions of the Administrative Services Department, has six ongoing goals.

- To refine City-wide program budgeting, to manage a comprehensive City-wide program evaluation system, and to ensure effective linkage between these systems.
- To maintain a cooperative and effective working relationship with the Policy Office to ensure close linkage with the Policy Office's goal setting process.
- To continue and improve upon necessary budget expenditure controls.
- To continue and improve upon revenue monitoring and revenue enhancement efforts.
- To provide staff support and advice to the Mayor and key Mayoral advisors on an issue-by-issue basis.
- To enhance OBPE's professional standards, recruit and retain top quality professional employees, and meet affirmative action goals.

## **THE EVOLUTION OF PROGRAM BUDGETING AND EVALUATION**

In late 1986, the new OBPE determined that fully implementing a rigorous program budgeting and evaluation system would require three years. This was because:



- A considerable amount of training and discussion would need to take place at the departmental level to help City managers to think of programs as distinct management units and to develop and accept program performance measures.
- The accounting and budgeting systems needed to be modified to reflect program-based budgeting.
- Baseline performance data had to be established so that comparisons between past and promised service levels would be possible.

Successive City of Boston budgets reflected consistent progress toward that three year objective.

- FY88 Operating Budget — OBPE developed an expanded four volume Operating Budget with funding allocated by program and including an initial set of performance measures for each program.
- FY89 Operating Budget — New features included authorizing statutes and ordinances and an organization chart for each department; reformatting program information (objectives, criteria, and service levels) to parallel OBPE's quarterly Program Progress Reports; improved performance measures; and a fifth volume on external funds utilized by City departments.
- FY90 Operating Budget — Improvements include performance measures reflecting actual experience; an expanded Volume V with more complete external funds information; and a direct relationship between performance measures and Policy Office goals.

The FY91 Operating Budget produced last year reflected the City's fully implemented program budgeting and evaluation system. Refinements included further fine-tuning of performance measures to reflect actual experience and ordered to reflect priorities; and an expanded Volume V with more complete external funds information.

This Proposed FY92 Budget maintains the same format as in FY91, allowing a direct comparison of

historical performance. This stabilization in the program budgeting and evaluation system helps to clearly illustrate the reductions in services planned in order to deal with the anticipated cuts in revenues.

## **IMPROVED MONITORING OF PERFORMANCE, EXPENDITURES, AND REVENUES**

In the same way that the budget document has evolved over the past four years, the sophistication of OBPE's monitoring and management of City's resources has also developed. During FY88 a monitoring system was developed, based on monthly reports from each department, on progress toward promised performance. Information from this system becomes the basis of OBPE's quarterly reports on City-wide progress toward performance goals, the first of which was issued in December, 1987.

In the fall of 1987, OBPE also began to independently assess the information received from departments on these monthly reports. These assessments, called criteria reviews, provide a measure of confidence in the information published in various City-wide formats because they evaluate the systems used to collect the performance data, and reach independent conclusions about the accuracy of the reported service levels. These criteria reviews were included in the FY88, FY89, and FY90 Mayor's Management Reports.

In the fall of 1988, OBPE published its first annual Mayor's Management Report which described the major activities of each department and analyzed departmental performance for FY88. In addition to charts showing each department's achievement of its "promised" service levels, the Management Report highlighted multi-year trends in both workload and the quality of services provided.

The FY89 Mayor's Management Report expanded upon the earlier report. Each Department's performance was evaluated not only in terms of planned versus actual service levels, but also in comparison to FY88 levels. This comparison was graphically illustrated. Overall performance achievements and



areas needing improvement were compiled and reported in summary fashion. An entire appendix of criteria reviews was published as well.

The FY90 Mayor's Management Report signified the culmination of the three year process to implement program budgeting and evaluation. The Management Report continued the historical comparisons of program performance, and highlighted the achievements in Mayoral priority areas realized despite the worsening fiscal situation in the state. Formal reporting on each department's performance regarding key City-wide management goals (managing attendance, controlling days lost due to injury, and timely processing of vendor payments) was also instituted.

Increasing attention has also been paid to refining program budgets, expenditure monitoring, and revenue analysis.

The initial allocation of costs by program in FY88 has been refined, particularly with respect to various overhead costs, and lease expenses. The distribution of these monthly expenses, as well as the distribution of weekly personnel costs, has been automated.

OBPE has also undertaken special projects to better manage expenditures City-wide and to improve fiscal controls. In particular, the Office monitors overtime expenditures, and with the Office of Personnel Management, controls the hiring of emergency employees.

In FY90, OBPE worked with departments to develop detailed spending management plans. Careful planning and monitoring of expenditures serves to ensure effective use of funds. To reduce costs, OBPE enforced tough restrictions on out-of-state travel, equipment purchases, and various incidental expenditures. The City automobile policy was reviewed and revised, resulting in the establishment of a motor pool and reductions in the number of non-public safety City passenger vehicles. Further cost controls were enacted which required clearer justification for personnel transactions.

Finally, OBPE has become actively involved in a range of issues related to the City's fixed costs, in order to better project both revenues and expenditures affected by these issues. OBPE has, for example, regularly monitored pensions issues, especially as they relate to the state's Pension Reform Act of 1987, and debt service matters. These areas make up more than 80 percent of the City's fixed expenditures. OBPE has also undertaken in-depth studies of major expenditure items, such as employee health benefits.

Improved revenue monitoring has been achieved in several ways. OBPE has developed, in conjunction with Data Resources Inc., a model for projecting information about the City's fiscal outlook on a five-year basis. In addition, OBPE carries out, on a monthly basis, a detailed review of revenues received, as compared with revenue projections, in order to maintain a complete picture of the City's current fiscal situation on a day-to-day basis. The Office also more extensively monitors Commonwealth activity that affects both City revenues and expenditures.

## **THE PROGRAM BUDGET CYCLE**

Experience since late 1986 has defined the annual cycle for Boston's program budgeting and evaluation system. Program budgeting and evaluation is an iterative process which builds on commitments, performance, and improved management systems in the previous years. The elements in this process are described below in the sequence in which they occur in the program budgeting calendar for the following fiscal year.

**GOAL SETTING** (November and December)  
The Policy Office institutes its annual goal setting process in the late fall. As described in Section 3 ("Goal Setting for the City of Boston"), this process reviews accomplishments in the past year, reviews performance toward current objectives, and defines major Administration goals for the coming year. Each goal is accompanied by performance measures and a list of milestone dates by which progress can be monitored. This goal setting provides impor-



tant policy direction to the budgetary decisions that follow.

**BUDGET PREPARATION** (November-April) Budget preparation begins simultaneously with the Goals process but extends long enough to incorporate the results of that process. Budget preparation first involves a detailed analysis by each City department of its need for funds and personnel to carry out its mandate in the fiscal year beginning the following July. In addition, departmental staffs review current performance levels, planned improvements, and proposed new activities to establish performance standards that would insure careful management of ongoing and new activities. All departmental budget requests are due to be submitted to OBPE by mid-January.

In light of the severe constraints on City resources caused by the state's continuing fiscal crisis and its impact on local aid revenues, the budget process followed for the last two fiscal years was somewhat revised. Each department was asked to prepare a proposed budget (1) to reflect maintenance of current levels of service, (2) to indicate how a "target" funding amount would be spent and how services would be affected, and (3) to identify new services that might be provided with increased funding. Nearly all City departments received "target" funding levels lower than prior year appropriations as a basis for their target budget submissions.

OBPE analyzes each departmental budget request. This analysis includes a review of the accuracy of expense projections, and defines maintenance, expansion, and reduction budgets and corresponding service levels. At the same time OBPE is projecting anticipated revenues for the coming fiscal year based on the extensive monitoring of current revenue streams, state and federal legislative initiatives, and changes in the national, state, and local economy.

Once revenue projections are refined and the full scope of departmental plans are identified,

a proposed budget is prepared. Funding decisions are a function of total available revenues, Mayoral priorities, and prior years' performance. The Mayor's Operating Budget includes not only recommended appropriations for each City agency, but also commitments as to levels of service to be accomplished with this funding. By statute, the recommended budget is submitted to City Council on the second Wednesday in April.

**BUDGET APPROVAL** (April-June) The City Council reviews and approves the Mayor's recommended budget. The Council has the authority to decrease or reject individual elements within the proposed budget, but may not authorize increased appropriations. (The School Department budget follows a somewhat different schedule and review process.)

**IMPLEMENTATION** (July 1-June 30) City departments use the funds and personnel approved in the adopted budget to carry out the activities and provide the services outlined in the budget. The departments prepare a spending management plan outlining quarterly costs.

**REPORTING AND ANALYSIS** (July 1-June 30) City departments report regularly on progress toward annual goals and promised service levels. The Policy Office monitors City-wide progress toward Mayoral goals. OBPE monitors and analyzes service level performance and expenditure of appropriated funds through variance analyses, program progress reports, and criteria reviews. This monitoring provides key City managers with ready access to both overall and specific departmental performance; this information is then incorporated into the next annual budgeting cycle.

## **SUMMARY**

The submission of the FY92 Operating Budget reflects the fifth year of "implementing" program budgeting and evaluation. It also represents the second consecutive year of utilizing this system in the process of deciding on cutbacks based on



scarce City revenues. While such decisions are difficult ones, the program budget format provides a much clearer picture of the impacts, consequences,

and priorities presented in this Proposed FY92 Budget.





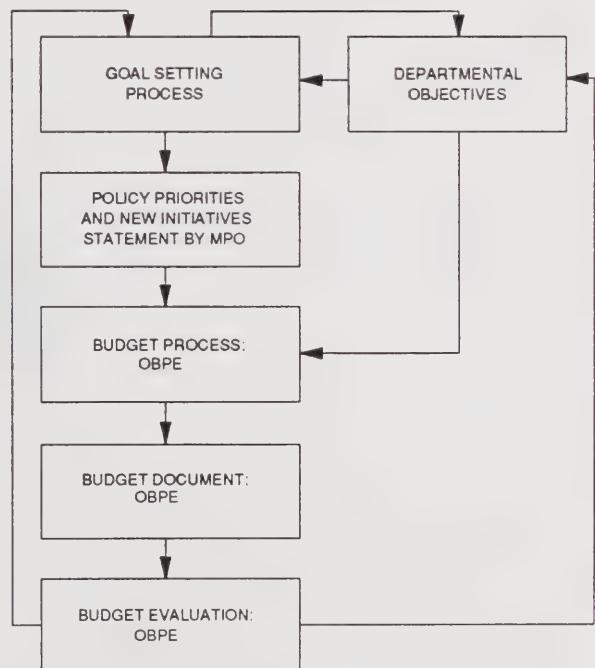


# GOAL SETTING FOR THE CITY OF BOSTON

The Mayor's Policy Office, as recommended by the 1986 Mayor's Management Review Committee, is responsible for conducting an annual City-wide Goal Setting process. In consultation with the Policy Office, each department in the City develops policy prior to the formulation of its fiscal year budget.

The goal setting process facilitates more effective strategic planning and interdepartmental coordination within the City. It also opens clear lines of communication between departments and the Mayor's Office and provides department heads with direct input into the policy making process of the City. The goals set in this process then shape meaningful objectives and performance criteria for the program budgeting and program evaluation function performed by the Office of Budget and Program Evaluation. It is particularly important in a year when resources are limited that funding is directed toward Mayoral priorities. As such, special focus is given to goals which control costs while achieving the objectives. Emphasis is given to goals which are central to the mission of each department.

## HOW THE GOAL SETTING PROCESS FITS INTO THE BUDGET PROCESS



In its fifth year of goal setting, the Policy Office has continued a City-wide goals process which is effectively incorporated into the budget process. Each goal has associated measures of performance which are included in the FY92 budget. Through increased cooperation with the Office of Budget and Program Evaluation, the Policy Office's goal setting process effectively links Mayoral priorities and departmental objectives to funding decisions.

## How The Goals Setting Process Fits Into The Budget Process

The goals process produces a set of criteria and specific objectives which guide the annual work plan of each City department. The work plans directly reflect Mayoral priorities and provide a mechanism for converting policy priorities into clear and attainable programmatic objectives.



## **How The Goals Process Works**

Goal setting for FY92 began in the late fall of 1990 in coordination with the budget process. The goals process includes the following steps:

- Policy Office staff holds preliminary meetings with the Office of Budget and Program Evaluation to finalize procedures which link the goals process with the budget process. This includes issuing joint instructions, offering joint training sessions and frequent formal and informal exchanges of information;
- Department heads submit proposed goals for FY92 to the Policy Office;
- Policy Office staff meets with each department head to discuss FY92 goals and progress on FY91 goals;
- Based upon these discussions, the Policy Office produces a set of goals and performance measures for each department, and a matrix of interdepartmental goals;
- Department heads review and approve their departmental goals, and agree upon the level of involvement and assistance to be provided for interdepartmental goals;
- The Office of Budget and Program Evaluation reviews the departmental goals with respect to their overall fiscal impact on the City budget and incorporates agreed upon performance measures into the program budgets;
- The Policy Office monitors progress toward these goals throughout the year;
- The Policy Office also organizes committees to address key interdepartmental policy initiatives and monitor progress on these initiatives throughout the year.

## **Accomplishments Of This Year's Goals Process**

In its fifth year of goal setting, the following successes are evident:

- A clear link exists between the primary purpose of each department and its FY92 goal(s);
- Budget reduction decisions have been shaped by clear Policy Office direction on Mayoral priorities;
- A focus has been placed on cost control as part of achieving Mayoral goals;
- A more responsive relationship has evolved between the Mayor's Office and City departments;
- Departmental goals are linked directly to Mayoral priorities and to the programmatic performance criteria included in the budget document;
- The goals process has improved the program evaluation process and selection and definition of the performance criteria contained in the FY92 budget document;
- Interdepartmental working committees are coordinating efforts to address overlapping areas of responsibilities;
- A coordinated monitoring system has been formed to evaluate progress toward the key goals established by department heads; and
- Key City-wide management goals have been highlighted.

In FY92 the Policy Office will continue to work closely with the Office of Budget and Program Evaluation to build upon these accomplishments. The goals process will continue to drive strategic City planning, coordinated City management, and more effective program budgeting.







# CAPITAL PLANNING FOR BOSTON

## History and Overview

In July 1984, Mayor Flynn created the Office of Capital Planning (OCP). This Office is responsible for the preparation of an annual multi-year capital plan, oversight of capital expenditures, and the monitoring of capital construction and equipment acquisition.

In 1984, reform of the City's capital planning procedures was long overdue. It had been almost 23 years since the City produced a comprehensive multi-year capital plan. The absence of such a document to guide project selection and financial planning had resulted in under-investment in certain portions of the City's capital stock, in particular its municipal buildings. Moreover, the fragmentation of capital projects among some 15 City agencies was inefficient and impeded long-range financial planning.

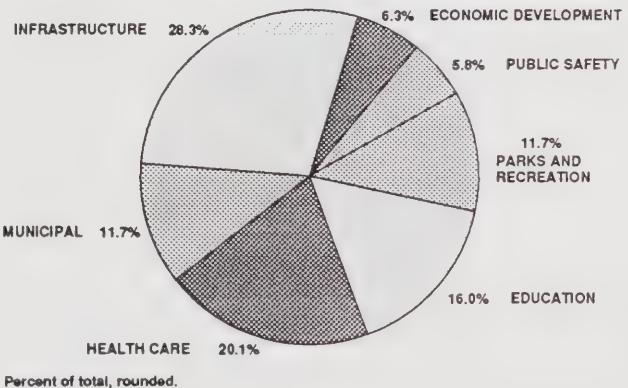
As Boston emerged from a three year moratorium on capital investment following the passage of Proposition 2 1/2, the backlog of City capital needs, coupled with federal budget cuts and limitations on municipal revenues, made it imperative that future capital decisions be made within the context of a multi-year plan.

The major responsibilities of OCP are:

- Maintaining a comprehensive inventory of current and future capital projects;
- Establishing procedures for the preparation of capital budgets including a standardized budget format and data collection system for all City departments;
- Coordinating the preparation of loan orders;

- Analyzing the impact of proposed state and federal funding plans on Boston's capital projects;
- Involving neighborhoods in the planning and implementation of Boston's capital program; and
- Coordinating the operational impacts of capital budgets with the Office of Budget and Program Evaluation (OBPE).

### CAPITAL FUND PROJECTED EXPENDITURES



Since July 1984, OCP has established the organizational systems necessary for the preparation and oversight of multi-year capital plans and budgets. To date, six annual capital budgets have been developed within the framework of five year planning horizons. The most recent, *Rebuilding Boston*, released in February, 1991 presented plans for over \$1 billion of capital investment. Already,



close to \$340 million of this plan has been appropriated by the City Council.

Supporting these spending plans is a set of internal accounting, budget, and reporting systems. These systems monitor over 400 capital accounts and 700 commitments annually.

Working with the Auditing and Treasury Departments, OCP redesigned the City's Capital Fund to account centrally for all capital revenue including bonds, grants, and private funds. Written procedures and budget manuals have been developed and distributed to City agencies involved with capital construction.

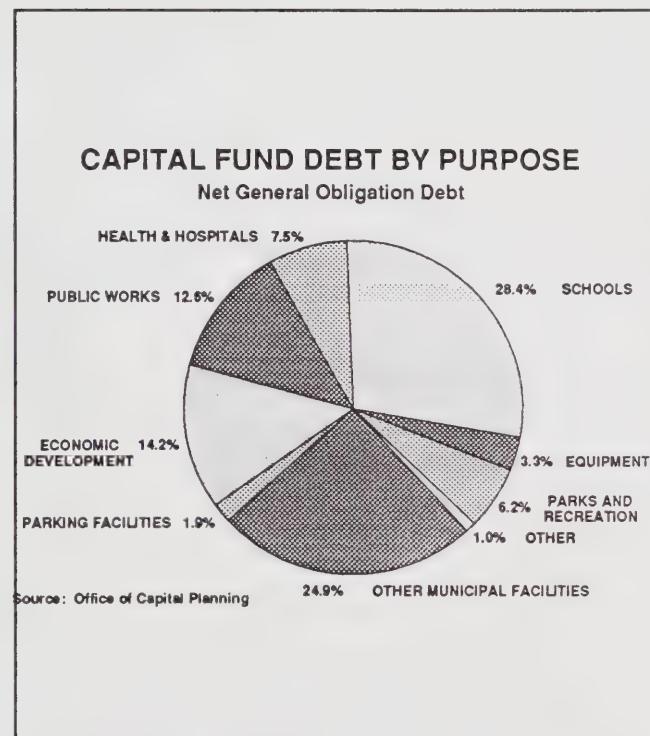
In addition to its capital budget management, OCP functions as coordinator and mayoral advisor on matters of capital policy and research. In this capacity, OCP has prepared the City's open space plan entitled *Boston's Open Space*, chaired the Unified Facilities Planners Committee which prepared a ten year plan for the rehabilitation of Boston public schools, and worked with a number of City and state representatives to secure passage of legislation to fund new construction of Suffolk County Jail and House of Correction facilities.

Finally, the communication of the Administration's capital policy and projects has been a priority. More than 4,000 capital plans and 1,000 open space plans have been produced, and presentations have been made to over 100 neighborhood and business groups. In addition, close to 200,000 neighborhood profiles focusing on local capital projects were distributed across the City.

In its February 1986 report, the Mayor's Management Review Committee recommended that OCP "should be required to inform the new Office of Budget and Program Evaluation....of the projected operating budget impact of each year's capital budget." This recommendation has been incorporated into both the operating and capital budgets using several mechanisms.

First, a Capital Improvement Program Operating Impact Form was jointly developed by OCP and

OBPE. The form is used to estimate the future operational costs of proposed capital projects. Second, OCP and OBPE coordinate the operating and capital budget process by examining the cost of debt service as part of the overall and continuing operating budget expenditures. During the course of the year, OCP, OBPE, and other City financial officials work closely with the City's Collector-Treasurer to determine the necessity, type, and amount of debt needed to be issued to satisfy the funding requirements of capital projects.



### External Funds Coordination

OBPE and OCP are currently developing a control mechanism to examine the fiscal impact of both operating and capital grant monies flowing into the City. Until recently, no management information system existed to capture costs associated with grant applications, including matching funds and fringe costs. As a result, departments occasionally received legal authorization to spend grant funds without fiscal assessment of the impact on the capital or operating budgets. OBPE is now working with OCP and other City financial officials to en-



sure that this policy is expanded to cover all external funds, both operating and capital.

## FY91-FY95 Capital Plan

The current capital plan calls for expenditures of over \$1 billion from FY91-FY95. These expenditures are aggregated in the priority areas set forth by the Mayor: education, public safety, health care, infrastructure, and parks. Expenditures are planned for the following priorities.

<u>Program</u>	<u>Expenditures (\$M)</u>	<u>Percent</u>
Public Safety	\$ 59.6	5.8%
Health Care	\$ 206.6	20.1%
Education	\$ 164.8	16.1%
Parks & Rec. Facilities	\$ 120.4	11.7%
Infrastructure	\$ 290.3	28.3%
Economic Development	\$ 65.0	6.3%
Municipal	<u>\$ 120.5</u>	<u>11.7%</u>
Total Plan	\$1,027.3	100.0%

During the past six years, more than 750 projects have been launched with over 450 already completed or in construction. Completed projects range from reopened police stations and recreational facilities, to roof replacements, street repairs, and renovated health facilities and school buildings. Projects in the design or construction stage include a series of repair and reconstruction projects for the schools totalling \$165 million, as well as new inpatient facilities for Boston City Hospital, the single largest capital project in the City's history, totalling over \$153 million.

The over \$1 billion of capital expenditures will be supported by revenues from general obligation (GO) and revenue bonds, state and federal funds, trust funds, and private sector contributions. During the past six years, the City has successfully sold \$345 million of GO bonds to support the capital plan. Boston's success in the capital markets reflects investors' growing confidence in the City's financial condition. Once again, the City was rewarded for its fiscal management as the two premier credit rating agencies reaffirmed the City's "A" credit rating.

Revenues are proposed from the following sources:

<u>Source</u>	<u>Percent</u>
General Obligations Bonds	63.4%
Revenue Bonds	14.9%
Federal Revenues	7.2%
State Revenues	9.3%
Surplus Prop.	3.4%
Other Funds	0.7%
Trust	1.1%
<b>TOTALS</b>	<b>100.0%</b>

The current capital budget projects the need for an additional \$275 million of GO bonds over the next five years. The amount to be borrowed in any one year will be determined by a variety of factors — cash need, market conditions, and constraints imposed by the 1986 Federal Tax Reform Act.

## Capital Planning Statistics

- Expenditures FY91 - FY95: \$1.01B
- Net Debt Outstanding 6/30/90: \$505.4M
- Current Bond Rating: A
- Net Debt/Assessed Value: 1.2%

Approval by the U.S. Department of Health and Human Services (HHS) for a mortgage guarantee through the Federal Housing Administration (FHA) Department of Housing and Urban Development (HUD) was received. Revenue bonds were sold to support the City's largest capital project, the construction of new inpatient facilities at Boston City Hospital. Federal insurance on bonds will enhance their credit worthiness and result in substantial reduction in the cost of the project.

## Summary

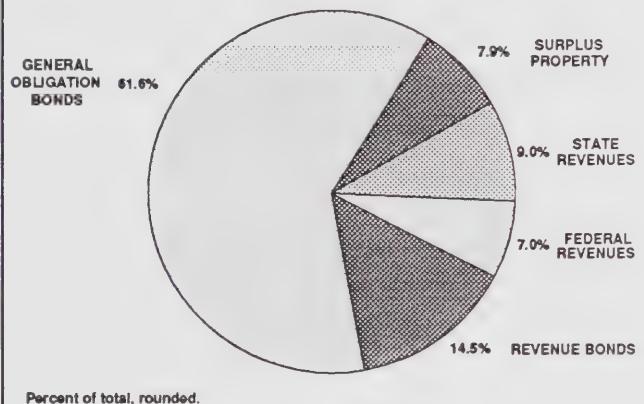
The effort to coordinate capital and operating budget and planning priorities is one of many initiatives designed to improve the City's financial



management and service delivery. The assessment of City debt service requirements, and the establishment of a procedure to identify operating costs associated with the undertaking of a capital and operating grant application, are control mechanisms that enhance the City's ability to operate effectively and ensure that Boston's sound financial management continues.

**Sources:** *Rebuilding Boston: A Five-Year Capital Plan*. March, 1990; *Rebuilding Boston: A Five-Year Capital Plan*. Vol. 2. January, 1989; *Rebuilding Boston: A Five-Year Capital Plan*. September, 1987; *Investing in Boston's Future: A Five-Year Capital Plan*. September, 1985.

#### CAPITAL FUND REVENUES









# FINANCIAL MANAGEMENT OF THE CITY

## RESPONSIBLE OFFICIALS AND AGENCIES

Boston's financial operations are ultimately directed by the Mayor. The Mayor is the chief executive officer of the City and has general supervision of and control over the boards, commissions, officers, and departments of the City. The Director of the Administrative Services Department is the City's chief operating officer. City budget appropriations for all departments and operations of the City and Suffolk County, except the School Department and the county courts, are prepared by the Office of Budget and Program Evaluation (OBPE), a part of the Administrative Services Department, under the direction of the Mayor.

Four other officers and their departments have major roles in the City's financial structure.

The Collector-Treasurer is responsible for supervising the Treasury Department, collecting revenues due to the City and Suffolk County, and paying all amounts due for payrolls and to outside vendors. The Collector-Treasurer also manages the investment of City funds, and supervises borrowings by the City in the form of either short-term or long-term debt.

The Auditor monitors internal controls, manages grant funds, provides financial reports, maintains books and records of the City and County, and approves all payments made by the City and County. The Auditor is an ex-officio member of the State-Boston Retirement Board.

The Commissioner of Assessing supervises the Assessing Department and the valuation, for tax levy

purposes, of real and personal property located in the City.

The Director of Capital Planning prepares and monitors the City's capital budget and coordinates the long-range capital planning activities of City, County, and School departments.

Two decision making bodies also fill prominent roles in the City's budget process. The legislative body of the City is the Council, which consists of thirteen members serving two-year terms. Four are elected at large and nine are elected from geographic districts. The Council may enact ordinances and adopt orders which the Mayor may either approve or veto. Except for orders borrowing or appropriating money, the Council may override a mayoral veto by a two-thirds vote. The Council may reject or reduce a budget submitted to it by the Mayor, but may not increase it. For a description of the operating budget process see "Program Budgeting" and "Budget Organization and Glossary."

The City's public schools are under the control of the School Committee, which is elected in the same manner as the City Council. The School Department operating budget is submitted to the Mayor and City Council as part of a budget process parallel to but separate from the City and County. Chapter 613 of 1987 placed strict controls on the School Department's appropriation process, attempted to limit the potential for overexpenditure, and strengthened the powers of the superintendent vis-a-vis the School Committee.



## **AUDITING AND BUDGETING PRACTICES**

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP). However, accounting practices established by the Commonwealth's Department of Revenue are used in the annual budget and property tax certification process. The statutory accounting system departs from GAAP in a number of respects. More technical discussions of these differences can be found in the City's official statements relating to bond sales, and in notes to its audited financial statements.

## **FUND ACCOUNTS**

The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. There are currently no transfers between funds. The funds and account groups are organized into four types described below.

*Government Funds* are those through which most governmental functions are financed.

- The *General Fund* is the City's most widely used fund. All financial resources, except those required to be accounted for in other funds, are in the General Fund; the detail of the fund comprises most of this budget submission.
- *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than those detailed below) that are legally restricted to expenditures for specified purposes.
- *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, principal and interest on City debt.
- *Capital Project Funds* account for financial resources used to acquire, construct, or do large scale renovations to City-owned facilities. These funds are derived principally from general obligation bonds and from federal and state grants.

*Proprietary Funds* include Enterprise Funds and Internal Service Funds. The measurement focus is upon determination of net income, financial position, and changes in financial position. Accounting principles used for these Fund Types are those applicable to similar businesses in the private sector and thus, these funds are maintained on an accrual basis of accounting.

The City does not maintain Internal Service Funds.

*Fiduciary Funds* are used to account for assets held in a trustee capacity (Trust Funds) or as an agent (Agency Funds) for individuals, private organizations, other governmental units, and/or other funds. Trust funds include Expendable Trust Funds, Non-expendable Trust Funds and Pension Trust Funds.

*Account Groups:* The General Long-Term Obligations Account Group is used to establish control and accountability for general long-term obligations not financed by and accounted for in Enterprise Funds. Examples are abatement refunds, accrued employee sick and vacation leave, and judgments and claims.

The City does not maintain a General Fixed Assets Account Group.

## **FINANCIAL MANAGEMENT IMPROVEMENTS**

Pursuant to state law mandates as well as certain major policy initiatives, the City has established an improved system of internal management controls. These controls are designed to maximize revenue collections, check departmental overspending, and professionalize the City's internal procedures.

Major components of the City's system of financial management controls include:

*Integrated Financial System:* Financial management has been enhanced through the Auditing Department's acquisition of the Local Government Financial System (LGFS) in FY86. This computerized financial management and accounting system tracks standard accounting functions such as revenues, expenditures, accounts payable, accounts receivable and general ledger. In addition, LGFS performs the specialized functions of en-



cumbrance control, fund accounting, and grants management, as well as other accounting and budgeting functions. The utilization of this system has improved the financial monitoring and reporting of funds management. On-line access to financial information allows department managers to directly evaluate the financial performance of their department as a whole, as well as specific programs within their department.

**Program-Based Budgeting:** The program-based budgeting format facilitates OBPE efforts to hold departments accountable for their performance and assist them in effecting management or systems changes that will improve the delivery of City services. During each fiscal year OBPE prepares a midyear report to document departmental progress and, at the conclusion of the year, it publishes a final annual report summarizing the performance of the departments.

In addition, the Office of Budget and Program Evaluation reviews all personnel appointments for funding availability and all non-personnel spending for conformance to all City and County departments' spending plans. See "Program Budgeting" for more detail on the program budgeting and monitoring process.

**Property Tax Collections:** The collection of property taxes has been improved by enhanced tracking systems and more thorough collection procedures and notifications, resulting in increased collections.

The City has implemented an aggressive enforcement program that continues to reduce the number of tax accounts that are delinquent, and to discourage new delinquencies. This program includes the adoption of stricter guidelines for handling delinquent taxes, utilizing a variety of collection remedies authorized by state statute, and working closely with the Commonwealth to refine the tax collection system. For example, the City, following requisite approval from the Massachusetts Department of Revenue, was the first municipality in the Commonwealth to amend tax bills to include past due amounts. This change, coupled with letter writing campaigns to first-time

delinquents, has resulted in a significant reduction in the number of past due accounts.

**Local Adoption of Pension Reform Act:** In FY89 the City opted to participate in a Commonwealth program for local retirement systems that commit to fully funding their pension liabilities. In agreeing to participate, the City committed itself to establishing a funding schedule incorporating a complete amortization of unfunded pension liability over a forty-year period while simultaneously setting aside sufficient funds each year to cover current liability.

**Capital Planning:** The Mayor's Office of Capital Planning (OCP) evaluates the condition of the City's capital stock, forecasts the timing and financial requirements of new construction and rehabilitation, and recommends allocation of current and future resources to meet the City's infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses taken. This ongoing process is documented by an annually updated five-year capital plan.

In addition to its planning functions, OCP also plays an ongoing construction management and supervisory role during the implementation phase of its capital projects. OCP reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

**Management Initiatives:** In light of local aid cuts in the past two years, the City has taken additional steps to manage its expenditures. In August, 1989 new restrictions on out-of-state travel, the assignment and use of City vehicles, and equipment purchases were imposed. Additional formal justification is now required to implement personnel transactions.

Beginning with the FY90 budget, selected programs and appropriations were eliminated, and other departments were consolidated to increase efficiency and streamline operations. In addition, the majority of City departments have faced budget cuts for three consecutive fiscal years.



## **FINANCIAL CONTROLS**

Certain controls established in the 1982 Funding Loan Act and its 1986 amendments set limits on flexibility in financial administration. Under the 1982 Funding Loan Act, for example, until April 15 of each year, the Mayor is authorized to reallocate no more than \$3 million between departments.

Additionally, the Act, as amended in 1986, limits the amount of personnel expenditures that a department can make in any single quarter, to a specific percentage of its appropriation, and requires Mayoral approval to waive any overexpenditures.

The 1986 amendments also mandated that the City establish a reserve fund which, by FY90 had to be not less than 2 1/2 percent of the preceding year's appropriations for City and County departments, except the School Department, which has its own separate reserve requirement. The fund may be applied to extraordinary and unforeseen expenditures after June 1 in any fiscal year, with the approval of the Mayor and the City Council. As of June 30,

1990 the amount in the City's reserve fund was \$17.625 million, an amount which slightly exceeded 2 1/2 percent of the preceding year's appropriation for City and County departments.

*Revaluation* : State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between the revaluations, the Commonwealth permits municipalities to establish new values on the basis of trends for year-to-year increases in assessments. (See "Sources of City Revenue-Property Taxes-Revaluation.")

In November, 1988, the City completed its third three-year revaluation since 1983. Each of these state-certified revaluations has dramatically increased the established value of the City's taxable property. As of January 1, 1982, the state certified a valuation of \$12.18 billion; as of January 1, 1985, \$20.25 billion was certified; and as of January 1, 1988, the state certified \$35.4 billion as the value of the City's taxable property.







# **STATUTES AND ORDINANCES GOVERNING BOSTON'S OPERATING BUDGET**

The purpose of this section is to set forth summaries of key Commonwealth laws and City ordinances which affect the formulation of Boston's operating budget and its subsequent expenditure. Please note that the material is not all inclusive, but does cover the more important laws guiding the budget process.

In addition to the statutes and ordinances, other budget related dictates can be found in various Mayoral Executive Orders and in the policies and administrative guidelines issued by the Office of Budget and Program Evaluation.

Probably the most important legislation to read to obtain a more precise understanding of Boston's operating budget is Chapter 190 of the Acts of 1982, commonly referred to as the Tregor legislation, and Chapter 701 of the Acts of 1986, known as the Tregor amendments.

## **ANNUAL APPROPRIATION PROCESS**

*Section 15 of Chapter 190 of the Acts of 1982, as amended by Section 2 of Chapter 701 of the Acts of 1986* states that "(a)ll appropriations, excepting those for school purposes, to be met with taxes, revenue or any source other than loans, shall originate with the mayor. The mayor, not later than the second Wednesday in April of each year, shall submit to the city council the annual budget of the current expenses of the city and county for the forthcoming fiscal year...

"The city council may reduce or reject any item but, except upon the recommendation of the mayor, shall not increase any item in, nor the total

of, a budget nor add any item thereto, nor shall it originate a budget.

"Not later than the second Wednesday in June, the city council shall take definite action on the annual budget by adopting, reducing or rejecting it, and in the event of their failure to do so, the items and the appropriation orders in the budget as recommended by the mayor shall be in effect as if formally adopted by the city council....

"The city council shall take definite action on any supplementary appropriation order and any order for a transfer of appropriations by adopting, reducing or rejecting it within sixty days after it is filed with the city clerk...."

## **SCHOOL DEPARTMENT BUDGET PROCESS**

*Section 1D of Chapter 23 of the Acts of 1906, as amended by Chapter 613 of the Acts of 1987* states that "(t)he superintendent of schools shall submit to the school committee for approval an annual budget of the school department for the forthcoming fiscal year no later than the first Wednesday in February prior to the beginning of such fiscal year. The school committee may adopt, reject, reduce or increase any item in the recommended budget; provided, however, that if the school committee fails to take definite action on the annual budget on or before the fourth Wednesday in March of each year, the annual budget as recommended by the superintendent shall be deemed approved as if formally approved by the school committee. After approval of an annual budget by the school committee, said superintendent shall submit said ap-



proved budget to the mayor who may approve or reduce the total recommended budget. Thereafter, not later than the second Wednesday in May of each year, the mayor shall submit said budget to the city council for an appropriation of funds. Said superintendent shall approve the appointment of any person except to a budgeted position."

*Section 2 of Chapter 224 of the Acts of 1936, as amended by Chapter 613 of the Acts of 1987* further states that "(a) the city of Boston shall annually provide an amount of money sufficient for the support of the public schools as required by law; provided, however, that said city shall not be required to provide more money for the support of the public schools than is appropriated in accordance with the provisions of chapter four hundred and eighty-six of the acts of nineteen hundred and nine, as amended. In acting on appropriations for educational costs, the city council shall vote on the goal amount of the appropriations requested by the mayor, but neither the mayor nor the city council shall allocate appropriations among accounts or place any restriction on such appropriations. The appropriation of said city shall establish the total appropriation for the support of the public schools, but may not limit the authority of the school committee to determine expenditures within the total appropriation; provided, however, that if the city auditor determines that school department expenditures in any fiscal year are projected to be in excess of total budgeted expenditures for that fiscal year, as supported by appropriation and other available funding, then the school committee shall not reallocate or transfer funds from any item in the budget for that fiscal year to fund any such projected additional expenditures.

"(b) After the fourth Wednesday of March of any fiscal year, the school committee shall not initiate or authorize any new or additional programs or categories of expenditures requiring additional unbudgeted expenditures unless such programs or categories have been incorporated and fully funded in the budget for the subsequent fiscal year. If such programs or categories have not been incorporated and fully funded in the budget for the subsequent fiscal year, they shall not be initiated or authorized

until the school committee shall have amended its budget submission for the subsequent fiscal year to reduce or eliminate other costs, programs or categories in amounts equal to the projected annualized costs of the new or additional programs or categories of expenditures.

"(c) The superintendent of schools shall prepare and submit to the school committee, the city auditor and the city office of budget and program evaluation, a monthly budget update report which shall detail and itemize year-to-date and projected school department expenditures and budget transfers."

## **SCHOOL DEPARTMENT FINANCIAL AFFAIRS**

*Section 1B of Chapter 231 of the Acts of 1906, as amended by Chapter 613 of the Acts of 1987* notes that "(t)he school committee may delegate, in whole or in part, to the superintendent of schools the authority to approve for the school department the acceptance and expenditure of grants or gifts of funds from the federal government, charitable foundations, private corporations, individuals, or from the commonwealth, its counties, municipalities or an agency thereof, the provisions of section fifty-three A of chapter forty-four of the General Laws notwithstanding.

"(b) The superintendent of schools shall provide to the school committee, the city auditor and the city office of budget and program evaluation of the city of Boston a report, detailing the source, purpose and balance on hand of all funds received or expended pursuant to subsection (a), quarterly."

*Section 2 of Chapter 231 of the Acts of 1906, as amended by Chapter 613 of the Acts of 1987* states that "(s)ubject to appropriations therefor, the superintendent of schools shall have the exclusive authority to make on behalf of the school committee contracts, or amendments to contracts, for the purchase or rental of equipment, materials, goods or supplies, leases of property, alterations and repairs of school property, and for professional or other services, with the exception of collective bargaining agreements and contracts for the transpor-



tation of students. All school department contracts or amendments to contracts shall otherwise conform to the requirements of the city charter of the city of Boston.

“(b) With respect to all contracts, agreements or amendments thereto made or entered into by the school department, the superintendent shall be responsible for establishing procedures for auditing and monitoring the compliance of the parties with the terms and obligations of such contracts, agreements or amendments thereto.”

## **RESERVE FUND**

*Section 7 of Chapter 701 of the Acts of 1986* requires the creation of an operating budget Reserve Fund in order to deal with “extraordinary and unforeseen expenditures.” The section goes on to state that “prior to the date when the tax rate for a fiscal year is fixed, include in the appropriations for such a fiscal year as a segregated reserve fund a sum not less than two and one-half percent of the preceding year’s appropriations for city and county departments, excepting the school department...

“The mayor, with the approval of the city council, may make direct drafts or transfers against this fund before the close of the fiscal year, provided that no such drafts or transfers be made before June first in any fiscal year.

“Each transfer recommended by the mayor to the city council shall be accompanied by written documentation detailing the amount of such transfers and an explanation for the transfer....”

This section further notes penalty provisions for exhausting the Reserve Fund and provisions for stepping up the fund to the 2 1/2% level. The section requires a 1% contribution for FY87, 1 1/2% for FY88, 2% for FY89 and the full 2 1/2% starting in FY90.

The section then notes that “the school department shall establish a segregated reserve fund of not less than one percent of the current fiscal year’s appropriations to the school department within ten days of final approval of such appropriations. No expenditures may be made from this (school

department reserve) fund before May first in any fiscal year...” and “shall require the approval of the mayor and the city council.”

## **BUDGET ALLOTMENT PROCESS AND REALLOCATIONS**

*Section 18 of Chapter 180 of the Acts of 1982, as amended by Sections 8 and 9 of Chapter 701 of the Acts of 1986* requires that “(o)n or before August first of each year, or within ten days of the annual appropriation order for such fiscal year whichever shall occur later, the city or county officials in charge of departments or agencies, including...the school department shall submit to the city auditor, with a copy to the city clerk...an allotment schedule of the appropriations of all personnel categories included in said budget, indicating the amounts to be expended by the department or agency for such purposes during each of the fiscal quarters of said fiscal year... (The allotment for the school department may not be greater than 20% for the first quarter, and not greater than 30% in each of the remaining three quarters.) (Allotments for city and county agencies may not exceed 30% for first or second quarters and for the third and fourth quarters may not be less than 21%).

“Whenever the city auditor determines that any department or agency, including the school department will exhaust or has exhausted its quarterly allotment and any amounts unexpended in previous quarters, he shall give notice in writing to such effect to the department head, the mayor and the city clerk, who shall transmit the same to city council.

“The mayor, within seven days after receiving such notice, shall determine whether to waive or enforce such allotment. If the allotment...is waived or not enforced...the department or agency head shall reduce the subsequent quarter’s allotments appropriately and the director of administrative services, within seven days, shall state in writing to the city council and the city clerk what reductions in each subsequent quarter’s allotment will be taken or what reallocations or transfers will be made to support the spending level in each subsequent quarter’s allotment. If the allotment for such quarter is enforced and not waived, thereafter



the department shall terminate all personnel expenses for the remainder of such quarter....

“No personal expenses earned or accrued, within any department, shall be charged to or paid from such department’s or agency’s allotment of a subsequent quarter without approval by the mayor, except for subsequently determined retroactive compensation adjustments.

“Approval of a payroll for payment of wages, or salaries or other personnel expenses which would result in an expenditure in excess of the allotment shall be a violation by the department or agency head....

“To insure that the overall city and county spending program remains in balance, the mayor may reallocate no more than three million dollars of non-personnel appropriations other than school appropriations during a fiscal year to other departmental purposes provided that in no department from which appropriations have been reallocated in accordance with this section shall any transfers be made...from personal services to non-personal services, except with the approval of a two-thirds vote of city council, if such transfer would require the layoff of departmental personnel, who have been permanently appointed to a position in the department....

“No reallocation may be made under this section after April fifteenth in any fiscal year.

“A list of each reallocation made by the mayor shall be transmitted to the city council and the city clerk by the city auditor by April thirtieth in any fiscal year. In each case the report shall state the accounts from which the transferred funds were taken and the accounts to which the funds were reallocated, and the reasons therefor.”

## **TRANSFER OF APPROPRIATIONS**

*Section 23 of Chapter 190 of the Acts of 1982, as amended by Section 3 of Chapter 701 of the Acts of 1986* states that “(a)fter an appropriation of money has been made...no transfer of any part of the money thus appropriated, between such department or office and another department or office,

shall be made, except in accordance with and after the written recommendation of the mayor to the city council, approved by a...vote of two-thirds of all the members of the city council, provided that the city auditor, with the approval in each instance of the mayor, may make transfers, other than for personal services, from any item to any other item within the appropriations for a department, division of a department or county office.

“After the close of the fiscal year, the city auditor may with the approval of the mayor in each instance, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose only of closing the accounts of such fiscal year, provided further that the city auditor within seventy days after the close of the fiscal year, shall transmit to city council and the city clerk a report listing what income, taxes, or funds were applied and what transfers were made and the reasons therefor.”

## **PENALTY FOR OVERSPENDING BUDGET**

*Section 17 of Chapter 190 of the Acts of 1982 (Tregor)* states that “(n)o official of (the) city or county except in the case of extreme emergency involving the health and safety of the people or their property, shall expend intentionally in any fiscal year any sum in excess of the appropriations duly made in accordance with law, nor involve the city in any contract for the future payment of money in excess of such appropriations....

“Any official who violates the provisions of this section shall be personally liable to the city for any amounts expended intentionally in excess of an appropriation to the extent the city does not recover such amounts from the person to whom paid....”

## **APPROPRIATION RESTRICTIONS**

*Section 10 of Chapter 701 of the Acts of 1986* requires that “the mayor and city council shall appropriate for the hospitalization and insurance account an amount not less than the average of the past three years actual expenditures from those ac-



counts. The city auditor shall certify, in writing to the board of assessors, that adequate funds are provided in the operating budget for existing collective bargaining contracts....”

## **DISPOSITION OF SURPLUS PROPERTY RESTRICTIONS**

*Section 24 of Chapter 190 of the Acts of 1982, as amended by Section 4 of Chapter 701 of the Acts of 1986*, requires that “proceeds from the disposition of any surplus property shall be deposited in a separate fund which shall be known as the Surplus Property Disposition Fund, and shall be used only as follows: (1) the amount equivalent to the debt incurred, and interest paid or payable thereon, as a result of the acquisition or improvement from time to time of the property shall be used only for purposes for which the city is authorized to incur debt for a period of ten years or more; (2) all proceeds in excess of such amount shall be credited to the capital fund of the city unless the city council by a majority vote determines with the approval of the mayor to credit such proceeds to the general fund of the city.”

## **DUTIES OF SUPERVISOR OF BUDGETS**

*CBC Ord. 5, s. 5* states that “(t)he supervisor of budgets shall, under the direction of the mayor and in consultation with the director of administrative services, prepare in segregated form the annual and all supplementary budgets...and shall report to the mayor on all subsequent revisions of the items in any budget....

“The supervisor of budgets shall also prepare...all transfer orders....

“The supervisor of budgets shall further prepare...the form of estimate sheets to be used by each officer, board and department, and each division of a department for which the city appropriates money, and the form of monthly report of such officer, board and department, and each division thereof, showing expenditures to date of all appropriations by them.

“The supervisor of budgets shall, in addition, have the powers and perform the duties conferred or imposed on the budget commissioner by any statute other than section 56 of chapter 35 of the General Laws.”







# BOSTON — ITS ECONOMY, PEOPLE AND NEIGHBORHOODS

As a major regional center, Boston's economic and social well-being is important not only to its 600,000 residents, but also to the surrounding area. Boston's economic and social activity is a driving force in a substantial part of Massachusetts and indeed the New England region.

Boston provides a wide range of services to all its citizens as well as to the hundreds of thousands of commuters, students, and tourists in Boston each day. However, the City finds it especially trying to meet these "outside" needs when there are many Boston residents and neighborhoods which did not share in the general renaissance in the Massachusetts economy in the 1980's and who are particularly vulnerable to the impacts of the current recession.

## BOSTON'S ROLE IN THE REGIONAL ECONOMY

The City of Boston is the metropolitan center of the Commonwealth and the New England region, with one of the largest concentrations of population, employment, and income in the nation. Its leadership has assisted the region in surpassing the national average on several important measures in the years since 1976. Employment in New England grew at a 3.3 percent annual rate from 1982 to 1988, compared to a 2.6 percent rate for the nation. During 1988, however, the rate for New England was 2.2 percent compared to 2.9 percent for the nation. Regional unemployment fell below the national rate in 1978 for the first time since 1967 and remained below that rate through 1988. Total personal income grew at an annual rate of 9.6 percent over the 1982-88 period, first among the nine U.S. census regions.

The City's role as the "hub" of the region is clear. Boston's Logan International Airport, with over 6,000 domestic and 500 international flights a week, is the eleventh busiest U.S. airport. The Port of Boston is one of the oldest and busiest seaports in the world, serving both containerized and bulk shipping. Boston's public transportation system, reaching into its many neighborhoods and linking to the regional commuter rail system, connects three million people to the central city. The highway system provides access for commuters from surface arteries and three limited access interstate highways including the Massachusetts Turnpike, as well as two circumferential routes, ten and twenty-five miles out from the City. Along both of these routes are major industrial parks and high-tech industry.

Commuting patterns highlight the City's influence in the metropolitan region. With 10 percent of the state's population, Boston provides 18 percent of all jobs and 23 percent of all goods and services produced within the state. In the 25 cities and towns with the highest per capita income in the Commonwealth (and a total work force of 212,468), more than one in four resident workers had jobs in Boston. The challenge to Boston is to provide basic City services to meet the needs of thousands of daily commuters and the businesses for which they work, while also providing services required by Boston residents.

## BOSTON'S ECONOMY

*The Changing Nature of Boston Jobs.* Boston appears to have the state's better paying jobs, although many of these jobs are not held by Boston residents. Wages earned, by place of work, have been consistently higher in Boston than in the



metropolitan area and the Commonwealth as a whole during each year between 1980 and 1987. Except for manufacturing and wholesale trade (industries with a diminishing share in employment in the City), wages in Boston were higher than the Commonwealth average for all types of industry. For all industries combined, the City's average wage of \$27,528 (April, 1990, U.S. Bureau of Economic Analysis Report) was 9.8 percent greater than in the metropolitan area and 17 percent greater than in the state.

Between 1976 and 1988 total employment in the City increased by 115,729, as growth in a broad range of service and finance industries more than offset decreases in manufacturing and wholesale trade. The five industries providing the largest percentage gain in employment in this period were securities, real estate, business and professional services, cultural services, and hotel services. (See Figures 1 and 2.)

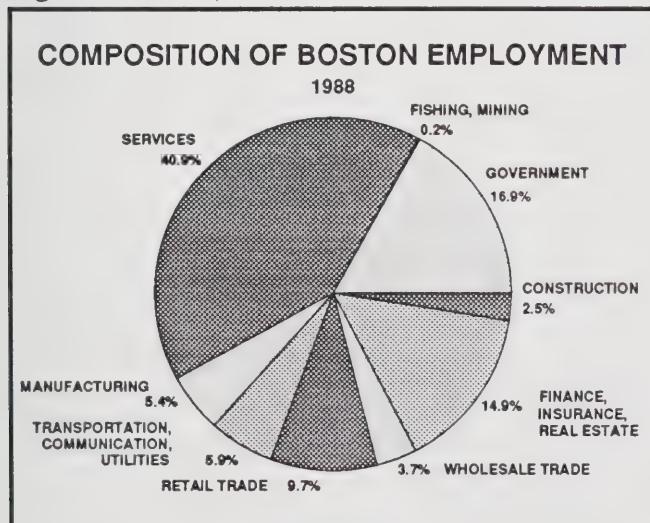


FIGURE 1

This continues a previously established trend evident since 1950. Since that time, transportation, communication, public utilities, finance, business services, and professional services have expanded their share of employment from 32 percent to 62 percent, while total employment in manufacturing and trade had declined to a 5 percent and 14 percent share, respectively, in 1989. Between 1988 and 1989, Boston's total employment declined from 639,599 to 628,191, the first decline since 1982.

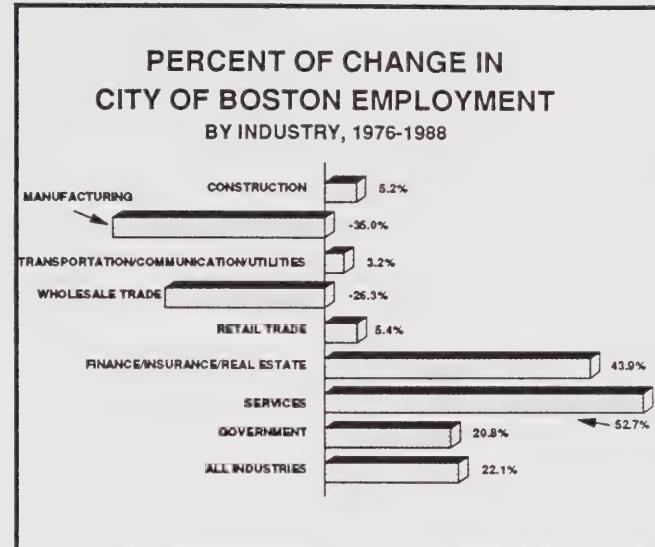


FIGURE 2

The mix of Boston jobs held by City residents is changing in a similar fashion. Figure 3 shows that Boston residents are increasingly likely to hold white collar jobs than blue collar jobs in the years since 1960. Professional and technical jobs within the white collar category made up the greatest share of all in 1985, and gained the most in share since 1960.

*Finance, Health, and Education Industries.* Boston is a major financial, educational, and medical

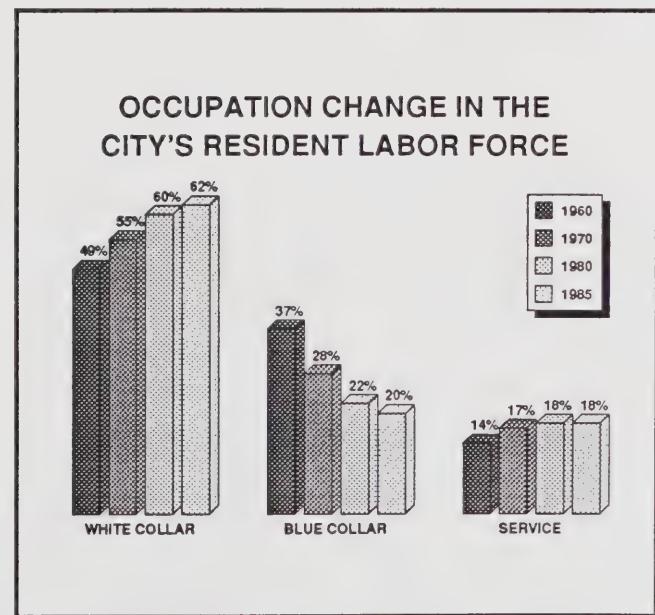


FIGURE 3



center. Nine out of ten of Boston's largest employers are involved in these industries. Referred to as the birthplace of the mutual funds industry, and a home of venture capitalism, Boston has over 1,000 financial institutions located within the City. In addition, the City has 36 universities, colleges, and community colleges as well as 26 career or technical schools which combined have an enrollment of over 125,000 students. The City has a higher ratio of students to population than any other major U.S. city.

Boston also is home to 31 hospitals, which provide 47,862 full-time jobs and an annual payroll of over \$1 billion. Boston hosts the medical and dental schools of Harvard, Tufts, and Boston Universities. In addition, the City has 30 local community-based health centers, of which four are affiliated with Boston City Hospital (BCH), and most of the others receive some funding from BCH.

However, these educational, cultural, and health service non-profit institutions receive the full range of basic City services at a cost to the City of Boston. Fifty percent of the total value of Boston's property is tax exempt.

*Construction Activity.* During the last two decades, the public and private sectors have carried out major construction projects that have played an important part in transforming the City's economic base. Since 1975 the private sector has added 16 million square feet of building space — five times more than was added in the preceding 35 years. In this period record amounts of office space were built and substantial increases in the number of hotel rooms, medical, and educational facilities were realized in Boston.

In the near future, construction will continue to play a major role in the area's economic activity. The Boston Harbor clean-up project, the depression of the Central Artery, the construction of the Third Harbor Tunnel, and Phase II of the International Place development will be major efforts that will continue unprecedented levels of post-WWII construction activity. Of these projects, only Phase II of International Place, however, will add to the taxable property base.

## **BOSTON'S PEOPLE — A GROWING CHANGING URBAN POPULATION**

*Income Growth and Economic Disparity.* Although Boston has emerged as one of the preeminent job producing cities in the country, with a ratio of jobs to population second only to the nation's capital, Boston is also ranked 240th in resident per capita income of 351 Massachusetts cities and towns, and is a significant 16 percent below the average state per capita income.

Per capita income in Boston increased from \$10,359 in 1980, to \$15,646 in 1985, to \$17,179 in 1986, and \$20,214 in 1988. Although Boston's per capita income remains below that of the metropolitan area and the state as a whole, the City has been making relative gains. Data available since 1982 show that the City's per capita income rose at a faster rate than in the metropolitan area, the state, the New England region, and the U.S. as a whole.

The City's median household income has been rising in recent years as well, from \$7,835 in 1970, to \$12,530 in 1980, and to \$19,250 in 1985. As expected, white households, male-headed households, and non-elderly households have higher incomes than minority, female-headed, and elderly households, respectively. The most important source of income for both non-poor and poor households is salary and wages.

Despite increasing prosperity, Boston is a city of income contrasts. Average household income in Boston was \$23,100 in 1985, but 28 percent of Boston households had incomes of less than \$10,000, while 22 percent of households had more than \$35,000 in annual income. One out of five Boston residents lived in a household with an income below the official poverty line.

Poverty rates in Boston are higher among children, single parent families, minorities, and recent immigrants to Boston. More than 30 percent of the residents of South Boston, Jamaica Plain, Roxbury, and Dorchester live in households with incomes below the poverty line. On the other hand, less than 9 percent of the residents of Central Boston,



Back Bay-Beacon Hill, Roslindale, West Roxbury and Hyde Park live in poor households.

*Unemployment in Boston.* Since 1982 and until recently, unemployment in the City has steadily declined. In 1980, unemployment was 6.1 percent, down from a recent high in 1975 of 12.8 percent. The unemployment rate had remained below the national average in each of the years since 1980. In 1987, the Boston unemployment rate was 3.2 percent, the same as the state-wide average, and well below the national level of 6.2 percent. Since 1989, however, the state, metropolitan and City unemployment rates have increased. In August, 1990, the City's unemployment rate was 6.3 percent, a rise from 4.0 percent a year earlier and at a level above the 5.4 percent national rate. A survey of City households conducted in the spring of 1985 reported a minority unemployment rate that was double the City's overall average, and a youth unemployment rate about triple the City-wide average.

*Cost of Living Effects of High Housing Costs.* Overall, during the period 1977-1987, the cost of living in Boston rose slightly less than in the nation (86 percent as compared to 88 percent). However, this comparison masks the effects of recent housing trends. Increased housing costs, which have been particularly hard on Boston's lowest income residents, have nearly offset the impact of lower property taxes and interest rates on the area's CPI since 1982. Strong demand in Boston and the surrounding area during the late 1980's caused rapidly increasing housing prices, higher rents, and corresponding increases in the CPI since 1983. Between September, 1989 and September, 1990, for example, the cost of living in the Boston area rose 7.2 percent, nearly 16 percent more than the 6.2 percent increase in the nation as a whole.

*A Diverse and Expanding Population.* Between 1980 and 1990 the City of Boston reversed decades of decline in population, and began growing again. In 1980, the City's population stood at 562,994. City estimates after the 1990 Census concluded that the City's population had increased since 1980 by 8.9 percent from 562,994 to 613,250. (Figure 4.) Boston's population had fallen by almost a

third from its peak of 801,000 in 1950 to its low point in 1980, as a result of the loss of more than half its manufacturing jobs, the process of suburbanization, and the effect of the national migration to the Sunbelt.

The reversal over the last decade is attributable to several factors. Among these are the improvement of neighborhood housing conditions, a rising birth

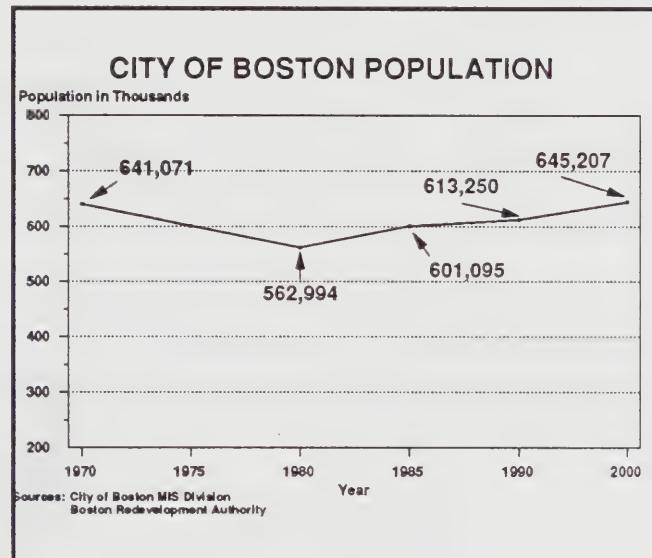


FIGURE 4

rate in Boston since 1977, an influx of immigrants from Asia, a new flow of immigrants from Ireland, and the move of "empty nesters" from the suburbs into Boston. Further, lower property taxes, an improved racial climate in the City, and enhanced amenities made Boston a more attractive place to live. On the other hand, some new immigrants are especially in need of City support services to help them adapt to life in the U.S.

Boston's steady growth in population is expected to continue at least through the year 2000. Based on a mid-range estimate, population in the year 2000 is projected to be 645,207, representing an increase of almost 32,000 or 5.2 percent between 1990 and 2000.

The population of Boston is increasingly made up of the young adult and middle-aged groups, with corresponding declines in the proportion of children and mature adults. This mirrors national



patterns. For example, the number of children aged 5 to 17 years old declined between 1980 and 1985 from 20 percent to 16 percent of the population, while the 35-44 year old population increased from 10 percent to 12 percent of the total. In 1985, 11 percent of Boston residents were age 65 or older.

Household size in Boston is stabilizing after a long decline. While in 1970 average household size was 2.76 persons, it declined to 2.4 persons in 1980. The decline continued to 2.3 persons in 1986. The proportion of households made up of families (rather than unrelated individuals) had also stabilized at 54 percent of total household units in Boston in 1985, after declining from 65 percent in 1970 to 53 percent in 1980, again reflecting national trends.

Boston maintains a rich cultural heritage. The range of ethnic backgrounds and countries of origin shows the growing diversity of Boston's population. While Irish, Italian, and other European ancestries predominate in most neighborhoods, persons of Haitian, West Indian, Middle Eastern, African, Chinese, and other Asian heritages make up more than 10 percent of the population in some neighborhoods.

Boston's minority population continues to increase in proportion to whites, although this trend appears to be slowing. Boston's minority population comprised 18 percent of the total City population in 1970, and grew to 30 percent in 1980. Since 1980, while the African American, Asian and Pacific Island, and Hispanic populations have continued to increase, so has the white population — reversing a 30 year decline. This trend began in the period from 1970 to 1980, when there was a substantial influx of 25-34 year olds who were mainly white middle class professionals, resulting in a net population growth in the more centrally located neighborhoods even while the overall City population was falling.

The proportion of persons speaking a language other than English tends to follow the patterns of ancestry and country of birth by neighborhood. While 80 percent of Bostonians speak English at home, other languages frequently spoken at home

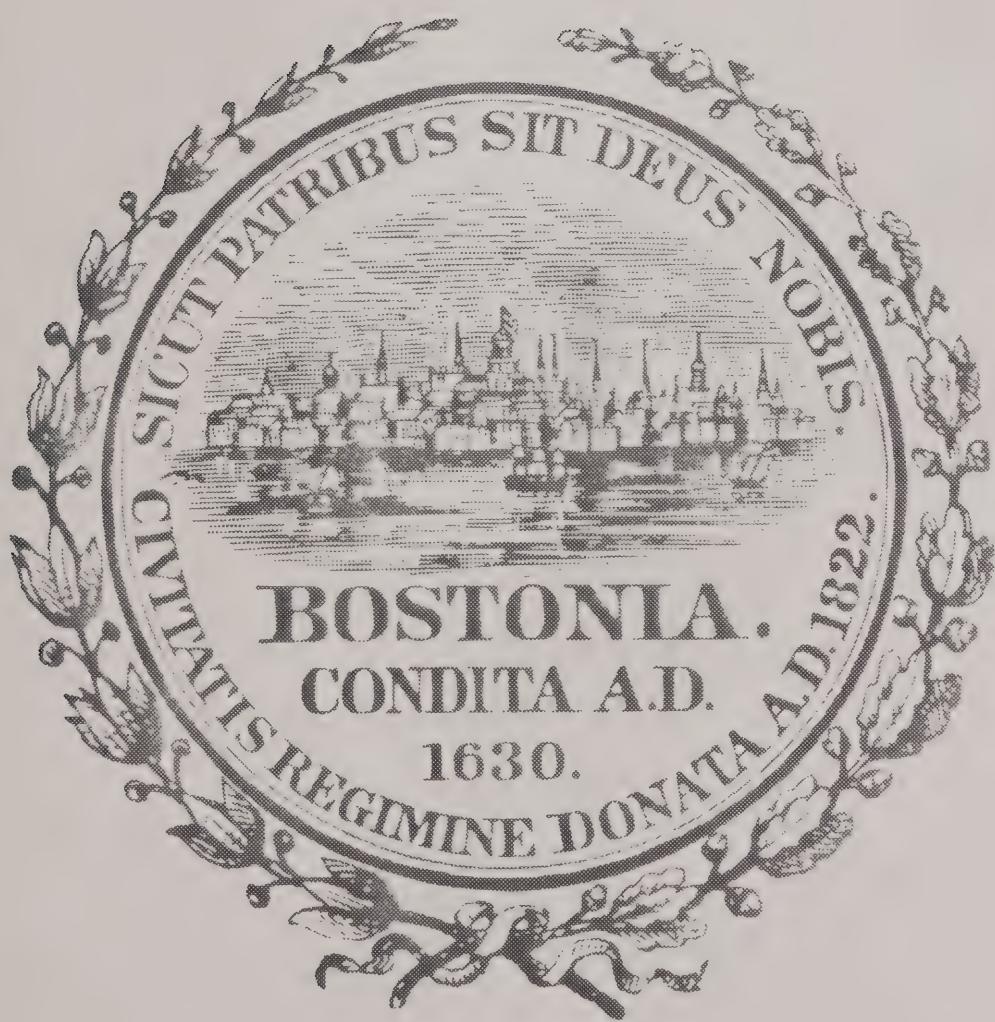
are Spanish (6 percent), French and Creole (3 percent), Italian (2 percent), and Chinese (2 percent). Other languages comprise the remaining 7 percent non-English languages spoken at home.

*Boston's Neighborhoods.* While Boston's population of 600,000 lives in a City of only 43 square miles, its neighborhoods are diverse. Based on a 1985 BRA survey, neighborhoods vary significantly in average age and family status. "Older family" neighborhoods include East Boston, Charlestown, South Boston, Central, and West Roxbury. In these neighborhoods, up to 40 percent of the family units are husband-wife families with about half having children, about 5 percent are other families most of which have children, and the rest are unrelated individuals and roommates. "Younger family" neighborhoods include Mattapan, Roslindale, and Hyde Park, with nearly 40 percent of family units made up of husband-wife families with children. West Roxbury, while more diverse in family age groups, has about one-third of its family units consisting of husbands and wives with children.

"Mixed neighborhoods" include Jamaica Plain, North and South Dorchester, and Roxbury; in these neighborhoods between one-third and one-half of the family units are unrelated individuals, with the rest roughly evenly divided between husband-wife and other families. "Young singles" neighborhoods include Fenway-Kenmore and Allston-Brighton; about 80 percent of the family units here are individuals, with about half living alone and half with unrelated roommates. The "young to middle aged singles" predominate in Back Bay-Beacon Hill and the South End; again, 80 percent of the family units are made up of unrelated individuals with about 60 percent living alone.

There are two predominant trends evident in changes found in family composition between 1980 and 1985. Jamaica Plain, Mattapan, Roslindale, West Roxbury, and Hyde Park have an increasing proportion of families with children; on the other hand, higher proportions of unrelated individuals are increasingly found in East Boston, Charlestown, the South End, and Allston-Brighton.







# BUDGET ORGANIZATION AND GLOSSARY OF TERMS

The City of Boston's Program Budget provides a wealth of information related to City services and their associated costs. The Budget presents recommended resource allocations in terms of personnel, facilities, and goods and services. It also describes the services provided by City and County departments, divisions, commissions, and other offices, and specifically identifies levels of services that will be provided by these entities in FY92.

This Chapter is a guide to the organization of the FY92 Operating Budget.

## ORGANIZATION OF THE VOLUMES

Volume I provides a City-wide review of information on the FY92 budget and on the context in which it is prepared. Sections include:

- an executive summary,
- financial trends,
- local aid,
- estimated revenues,
- a summary of the budget,
- the tax and appropriation orders,
- Boston's program budgeting,
- goal setting in the City,
- Boston's capital planning,
- financial management in the City,
- general laws and statutes governing the City,
- Boston's people and its economy, and,
- the organization of the budget and a glossary of terms.

The budgets for each City and County department and for other appropriations are presented in Volumes II, III, and IV, as follows:

- *Volume II*: Neighborhood Services: Departments A through O
- *Volume III*: Neighborhood Services: Departments P through Z, and
- *Volume IV*: Support Services

*Volume V* presents information on City departments' use of external funds from a variety of sources.

## THE BUILDING BLOCKS: PROGRAM BUDGETS

Activities and services of the City are grouped into "programs" for budgeting and management purposes. The budget for each department is presented on a program-by-program basis.

A "program" is defined as:

"An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives."

For the purposes of program budgeting and program evaluation, a program can consist of direct services to the public and neighborhoods of the City (police patrol or voter registration), or traditional City staff functions (administrative services or engineering and design).

Some City activities may not be defined as separate programs although they may be self-contained operations. For example, a fire station is not a separate program although it is a cost center, for accounting purposes, within the Fire Department's Fire Suppression Program.



While these program budgets serve as the basic building blocks of the budget, there are two additional organizational levels above the program level in the Budget:

- *The Division Level:* for budgeted units within some departments, and
- *The Department Level:* which includes departments, commissions, and other offices.

The basic budget presentation is modified slightly depending on the structure of a department.

## **UNDERSTANDING THE INFORMATION PRESENTED**

Three basic components are used to present the FY92 budget. These are:

- Description of organization and services,
- Financial data, and
- Personnel data.

### **Description of Organization and Services**

This describes organizational missions, services, objectives' performance measurements, and service levels for FY92.

- *Mission statement:* The mission statements for departments, divisions, and programs are fundamental statements of purpose for a unit or program.
- *Description of Services:* These statements provide a general overview and examples of the major services that are provided by a department or division to the public, for public facilities, or for other units of government.
- *Objectives:* Objectives are major proposed accomplishments or activities. Objectives are usually more specific than "goals"; they are measurable, quantifiable, and time-bound. Generally, there is continuity between objectives from year to year.

Objectives are numbered roughly in order of priority and corresponding criteria and service levels can be identified easily. An organization's most fundamental objectives are listed first, followed by objectives of a more temporary nature.

- *Criteria:* For every objective defined in the program budgets, at least one criterion has been defined for measuring performance regarding that objective.

Criteria are indicators of service provided. They include measures of workload, output, work or service quality, efficiency, effectiveness, and productivity. Some criteria for FY92 are the same as those in previous years; however, many have been refined to measure more accurately the objective being pursued.

- *FY92 Promised Levels of Service:* For each criterion, the department or division indicates a level of service to be provided during the forthcoming fiscal year. The program, division, and department managers have promised to produce these service levels given the funding and personnel shown in the budget for FY92.

In cases where the service level depends on an external factor (for example, the number of tax abatements or building permits applied for), the promised service level reflects the workload which the program is equipped to handle in an efficient and effective manner.

Departments or divisions report progress toward attaining these promised levels of service on a monthly basis. This progress is summarized publicly in a mid-year and final annual report.

### **Financial Data**

The financial data identify the major groups and object codes of expenditures (Personal Services/Overtime, Supplies and Materials/Food Supplies, etc.) and the historical expenditures and proposed appropriations in these groups and objects.



Two financial sheets are used in the FY92 Operating Budget.

*History by Object Code:* The objects of expenditure are listed with six expenditure groups. Dollar amounts are shown for:

- FY89 actual expenditure,
- FY90 actual expenditure,
- FY91 budget appropriation,
- FY92 proposed appropriation, and
- The difference between the FY91 appropriation and the FY92 proposed appropriation.

*Program Summary by Object:* The expenditure objects are listed within the six groups, and the department FY92 recommended budget is broken down by program, and totaled to the department level.

## Personnel Data

The personnel data shows funding for permanent positions, including existing and proposed positions. Personnel data for departments, divisions, and programs is provided in the same format. All permanent positions are listed by salary grade within the department, division, or program. The total salary request is listed for these positions.

For each position shown, the following information is provided:

- *Position:* An abbreviation of the job title of the position.
- *Grade:* The code for the salary grade of the position.
- *Filled 3/1/91:* The number of full-time equivalent employees in this job title as of March 1, 1991.
- *Salary Requirement:* This column is used to show the currently authorized full-time equivalent personnel quota, and the total dollars needed to fund the quota.
- *Deletions:* The full-time equivalent number of permanent positions, and the total salaries,

to be subtracted from the numbers in the “Salary Requirements” column.

- *Additions:* The full-time equivalent number of permanent positions, and the total salaries, to be added to the numbers in the “Salary Requirements” column.
- *Total:* The resulting quota and the total salaries allowed in the budget.

The total dollar permanent personnel budget figure, shown at the bottom right of the personnel sheet, is then adjusted as follows:

- *Differential Payments:* These payments are amounts paid to employees in intermittent job titles and employees entitled to shift differential payments. This figure is an addition to salary requirements.
- *Other:* These figures, where shown, cover other payments such as sick leave and vacation buy-back, longevity pay, etc.
- *Salary Savings:* These savings, subtracted from the salary requirements calculated, are either estimated amounts projected to result from employee turnover based upon historical experience, or savings as a result of personnel reductions.

## GLOSSARY OF TERMS

*Account Number:* The number by which the Auditor categorizes an appropriation. For budget purposes, also known as appropriation code.

*Accrual Basis:* The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

*Allotment:* The amount which can be expended quarterly for personnel as determined by the terms of the Tregor legislation.

*Appropriation:* The legal authorization to expend funds during a specific period, usually one fiscal year. In Boston, the City Council is the appropriating authority.



**Base Budget:** A budget which describes the funding required to maintain existing levels of service or activity.

**Exhibit**  
**Expenditure Groups, Codes, and Objects**

Group	Code	Object
Personal Services	0100	Permanent Employees
	0110	Emergency Employees
	0120	Overtime
	0160	Unemployment Comp
	0170	Workmen's Comp
Contractual Services	0210	Communications
	0220	Light, Heat, Power
	0230	Water and Sewer
	0250	Garbage/Waste Removal
	0260	Repairs: Buildings and Structures
	0270	Repairs and Service: Equipment
	0280	Transport of Persons
	0290	Miscellaneous Contractual Services
Supplies and Materials	0300	Auto Energy Supplies
	0320	Food Supplies
	0330	Heating Supplies and Materials
	0340	Household Supplies and Materials
	0350	Medical, Dental and Related
	0360	Office Supplies and Materials
	0370	Clothing Allowance
	0390	Miscellaneous Supplies and Materials
Current Charges and Obligations	0450	Aid to Veterans
	0460	Equipment Lease/Purchase
	0470	Indemnification
	0490	Other Current Charges
Equipment	0500	Automotive Equipment
	0560	Office Furniture and Equipment
	0590	Miscellaneous Equipment
Other	0600	Special Appropriation
	0700	Structures and Improvements
	0800	Land and Non-structural



***Budget:*** A formal estimate of expenditures and revenues for a defined period, usually for one year.

***Budget Amendment:*** A change from originally budgeted quotas; the forms filed by departments with the Office of Personnel Management and the Office of Budget and Program Evaluation to justify these changes.

***Capital Budget:*** A plan of proposed outlays for acquiring long-term assets and the means for financing those acquisitions. Normally financing is by long-term debt.

***Cash basis:*** A basis of accounting under which transactions are recognized only when cash changes hands.

***Chargeback:*** A method of assessing departments for costs incurred by them for which they are not billed directly. Charges for centrex telephone, postage, and printing are examples.

***Cherry Sheet:*** A cherry-colored form showing all Commonwealth and county charges and reimbursements to a city or town as certified by the state Director of the Bureau of Accounts.

***Collective Bargaining:*** The process of negotiations between the city administration and bargaining units (unions) regarding the salary and fringe benefits of City employees.

***Commission:*** An appointed policy setting body.

***Credit Balance:*** See departmental deficit.

***Credit Transfer:*** The transfer of appropriations from one object code to another, within a department; the form used to effect such a change.

***Debit Transfer:*** Moving actual expenditures from one object code to another within or between departments; the form used for such moves. Usually used as a correcting entry.

***Department:*** A major service-providing entity of City government, established by law.

***Departmental Deficit:*** A condition which exists when departmental expenditures exceed departmental appropriations. Also refers to the overexpended amount and credit balance.

***Department Income:*** Income flowing to a specific City department, usually as a result of user revenues applied for services rendered. Parking meter charges, building permit fees, and traffic fines are examples of departmental income.

***Division:*** A budgeted sub-unit of a department.

***Encumbrance:*** Funds set aside from an appropriation to pay a known future liability.

***Excise Tax:*** A tax applying to a specific industry or good. The jet fuel tax and the hotel/motel occupancy tax are examples of excise taxes.

***Expenditure:*** An actual payment for goods or services received.

***External Fund:*** Money received by an agency which is not generated from City sources, such as grants or trusts.

***Fiscal Year:*** The twelve month financial period used by the City which begins July 1 and ends June 30 of the following calendar year. The City's fiscal year is numbered according to the year in which it ends.

***Full-Time Equivalent Position:*** A concept used to group together part-time positions into full time units.

***Fund:*** An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources with all related liabilities, obligations, reserves, and equities, segregated to carry on specific activities or attaining certain objectives. Among the fund types used by the City are: General, Special, Trust, and Capital.

***GAAP:*** Generally Accepted Accounting Principles. There are twelve basic principles of accounting and reporting applicable to state and local governments. These include the use of the modified accrual or accrual basis of accounting, as appropriate, for measuring financial position and operating results. These principles must be observed in order to provide a basis of comparison for governmental units.



**Goal:** A statement, in general terms, of a desired condition, state of affairs, or situation. Goals are long-term in nature, and are not usually directly measurable in themselves. The establishment of goals helps define the mission that agencies need to carry out.

**Grant Year:** The grant accounting period designated by the requirements of a specific grant.

**Headcount:** The actual number of full-time or full-time equivalent employees in a department at any given point in time. The headcount will change from time to time as employees are hired or terminated.

**Line Item:** See Object Code.

**Mission:** A fundamental description of what is done, including a general overview of the purposes and major activities of an agency or program.

**Modified Accrual Basis:** The accrual basis of accounting adapted to the governmental fund type, wherein only current assets and current liabilities are generally reported on fund balance sheets, and fund operating statements present “financial flow” information (revenues and expenditures). Revenues are recognized when they become both “measurable” and “available to finance expenditures of the current period.” Expenditures are recognized when the related fund liability is incurred except for a few specific exceptions. All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting.

**Object Code:** An expenditure classification according to the type of item purchased or service obtained; for example, emergency employees, communications, food supplies, automotive equipment.

**Operating Budget:** A legally adopted plan for anticipated expenditures for personnel, supplies, and services in one fiscal year.

**Performance Measure:** An indicator of work and/or service provided. Measures can be defined for identifying output, work or service quality, efficiency, effectiveness, and productivity.

**Program:** An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives.

**Program Criterion:** A concise description, in quantifiable terms, of the levels of output or work or service quality promised by program managers for the budget identified.

**Program Evaluation:** The process of comparing actual service levels achieved with promised results; also refers to assessing, for the purpose of improving, the way a program works.

**Program Objective:** A statement of proposed accomplishments or attainments. Objectives are short-term in nature and are measurable.

**Proposition 2 1/2:** A state-wide tax limitation initiative petition limiting the property tax levy in cities and towns in the Commonwealth to 2 1/2% of the full and fair cash valuation of the taxable real and personal property in that city or town. The statute also places an annual growth cap of 2 1/2% on the increase in the property tax levy.

**Quota:** The planned number of positions which can be funded by a department budget. This can refer either to specific titles or to the number of personnel funded in the entire department. The quota of positions will change, from time to time, by means of a budget amendment, approved by the Office of Budget & Program Evaluation and the Office of Personnel Management. The actual number of personnel working in a department at any one point in time may differ from the quota.

**Reallocation:** A transfer by the Mayor of up to \$3 million authorized under the Tregor legislation, prior to April 15, to relieve departmental deficits, or meet unanticipated financial problems.

**Reserve Fund:** An appropriation for contingencies.

**Revenue:** Income received by the City.

**Salary Savings:** For budget purposes, an amount that will be saved from annual turnover of personnel in any department.



*Special Appropriation:* An authorization to expend funds for a specific project not encompassed by normal operating categories.

*Special Revenue Fund:* Used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or sources for major capital projects) that are legally restricted to expenditures for specific purposes. A special revenue fund is accounted for in the same manner as a General Fund.

*STAT:* Statutory accounting and reporting which is adopted by a legislative body of a governmental entity. The method of recording and reporting actual expenditures and revenues within a plan of financial operations that establishes a basis for the control and evaluation of activities financed through the General Fund. When the budget basis and basis of accounting are different, a governmental unit usually maintains its records on a budget basis.

*State Distributions:* All City revenue flowing from the state. Major categories include reimbursement for loss of taxes, educational distributions and reimbursements, funds for direct education expen-

ditures, general government reimbursements and distributions.

*Sub-Object:* A detailed breakdown of an Object Code.

*Sub-Program:* A sub-program is defined discretely, for purposes of management, which along with other related sub-programs makes up a larger program.

*Supplementary Appropriation:* An appropriation submitted to the City Council after the main budget has been approved, which must specify a revenue source.

*Third Party Payment:* Medical payments, usually from an insurance carrier to a health care provider on behalf of an injured or infirm party.

*Trust Funds:* Funds held by the City in a fiduciary role, to be expended for the purposes specified by the donor.

*Unliquidated Reserve:* A fund established at year end, used to pay for goods and services received this year, but not billed until next year.





